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PUBLIC ENTERPRISE AS AN INSTRUMENT OF POLICY IN ANTI-POVERTY STRATEGIES IN SOUTH ASIA*

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PREFACE

This study suffers from the constraints imposed by its data sources and the analytical framework adapted to review the data. The data input demanded by the analytical framework used here but published elsewhere (12) required an independent research project. Only in the case of Bangladesh was the data base at all related to the demands of the analytical frame. The task of extracting data from studies relating to four countries where the perspective was quite different from that used in the Bangladesh study and applied here has left the data used in this study as of little more than illustrative value. The study for all its length and liberal use of data is useful more for the questions it poses than the information it generates about the operations of public enterprise in Asia.

An attempt to interpret the nature of social and political systems in order to understand the working of public enterprise for countries where one has only limited expertise or insight is likely to invoke challenge from more informed scholars. Where in fact such interpretations are being used within a particular conceptual framework rather than as a mere presentation of facts the response is likely to be even sharper. The paper thus has a certain educative value for the writer who hopes to benefit from the responses of those who are better informed of the role of public enterprise and the political systems in particular countries.

The study may serve some purpose if it can focus both discussion and research on the nature of the state system as a variable determining the allocation of the surplus generated by public enterprise and the particular role it comes to play in particular social configurations. This it appears is a precondition for the sort of analysis favoured by economists and management specialists who seek to interpret the performance of public enterprise entirely within the limits of their own disciplines.

To the extent that the study draws freely on the research work generated by the IDRC project on Public Enterprise in Asia grateful acknowledgement needs to be made both to the IDRC and to the institutions in India, Pakistan, Sri Lanka and Nepal cited in the bibliography who actually undertook the research. The data from their work and of subsequent papers, most of which are still in draft form, submitted at the

/PPEA

PPEA Seminar in Ottawa, may have appeared in a context quite unintended by the authors so that apologies as much as acknowledgement appears in order, since the interpretation of the data remains the writers and owes nothing to the original authors. Apologies and acknowledgements are also due to my co-author, in the Bangladesh component of the IDRC study, Dr. Muzaffer Ahmed, who again must be excluded from all responsibility for the use to which I have put our collective efforts.

A special word of acknowledgement is due to the invaluable and herculean research assistance rendered by Ashfaq Hai to the completion of this paper. Grateful acknowledgement is also due to Marie Vickers for her heroic attempts to convert an illegible handscript into a readable if not comprehensible paper.

INTRODUCTION

Public Enterprise (PE) has come to be regarded as an important instrument for giving expression to government's social aspirations and development objectives. Whilst PEs have emerged as the dominant institutional mechanism for development in socialist countries they have come to play a growing role in the market economies of both the developed countries (DC) and the less developed countries (LDCs). Notwithstanding the sizeable growth in the assets of Public Enterprise in most DCs such as United Kingdom, France and Italy its role is, however, still subordinate to and supportive of private enterprise which remains the primary engine for economic activity. In contrast in the LDCs, PEs have come to play a much more substantive role both as promoters of as well as instruments for development. The extent of the role assumed by PEs in stimulating economic activity varies according to the political compulsions of the regime and the alignment of social forces within the polity both of which stand in symbiotic relationship to each other.

In the context of our study Public Enterprise is used generically to refer to all instruments of economic activity where the state by virtue of ownership or control of the enterprise/institution directs its policy and controls the disposal of its surplus. This generic definition would normally include a variety of juridical entities ranging from departmental enterprises run by ministries, to Public Corporations and Joint-stock companies where the government is the sole or dominant owner. Where, however, our study draws on specific quantitative data, which is largely derived from a set of studies on public enterprise in south Asia the more limiting definition of public enterprise used in these studies will apply.[1/] In these studies for purposes of comparability it became necessary to explicitly define the contours of public enterprise within the public or state sector as a whole. To the extent then that we draw upon these studies to illustrate our analysis of the role of PEs we will be constrained by the definitions and measures of our data source and will seek to make this definitional constraint clear to the reader.[2/] However, within the over-all compass of our discussion public enterprise will be used as coterminous with state or

/government

1/ These studies relate to the Project on Public Enterprise in Asia (PPEA) initiated by the International Development Research Centre (IDRC), Ottowa. Macro-studies relating to India, Pakistan, Sri Lanka, Nepal and Bangladesh listed as 1-5 in the bibliographical references have been used as the basis of definition for PEs and as a data source for our paper.

2/ The PPEA project defined public enterprise as distinct from the public sector to cover the following criteria for inclusion: (a) government ownership, (b) government's control, (c) decision-making unit identifiability, (d) product marketedness. For an elaboration of this definition and summary of criteria used in the PPEA studies see Sakong (6).

government enterprise and will incorporate all areas of direct government economic activity relating to the production of goods and services.

Our study on the role of PE is limited to south Asia, which for the purposes of this paper includes India, Pakistan, bangladesh, Sri Lanka and Nepal. This definition excludes only Afghanistan as a sovereign economic entity within the south Asia region. The exclusion is dictated more by the constraints of our data source than by an attempt to redefine the geo-political contours of south Asia. Afghanistan's relative place in the regional economy of south Asia is, however, sufficiently small to make our current definition of south Asia largely coterminous with the countries under study.

Within the LDCs south Asian countries have accorded a particularly important role to Public Enterprise within the national economy. Though, as we will see in our study this importance may appear disproportionate in terms of quantitative indicators of the role of PEs in the national economy. A review of political rhetoric, public pronouncements and government documentation of its development plans in all these countries indicates that public enterprise has come to be accorded an important and even paramount role in the development process.

Our paper is, however, not intended as an over-all review of the role of PE as an agent of development but has a more specific focus. All the countries of south Asia and perhaps of most LDCs have committed themselves to the roduction if not elimination of poverty. The deployment of state resources, policies and instruments thus need to be evaluated to reconcile the gap between the rhetoric and reality of state policy. In such an exercise the evaluation of public enterprise assumes some importance since it figures as a major resource and instrument for reconciling government policies directed towards growth, elimination of poverty and distributive justice.

I. ASSUMPTIONS UNDERLYING THE USE OF PE AS A REDISTRIBUTIVE INSTRUMENT

Within the framework of our analysis[3/] it is important to distinguish between the use of PE as an instrument of redistribution and a: a vehicle for promoting the anti-poverty strategies of the regime. Under certain assumptions it is conceivable that at the margin state policies may raise the real incomes of the poor without prejudice to the claim on resources of the affluent or any abridgement of their opportunities to add to their income

/and

3/ The analytical framework used in this study has been spelt out in a paper on public enterprise and the nature of the state (12).

and wealth. This is the basic premise of the "redistribution with growth strategy" now much favoured by the World Bank and its acolytes.[4/] In contrast to this anodyne approach to reduce poverty it has been argued that poverty is a structural problem originating in the relative concentration in the ownership and control over the means of production. This concentration of wealth both perpetuates poverty and accentuates inequalities. It is founded on the monopolization of social and political power by the elites who use their control over power to divert resources and policies to perpetuate their affluence. This dispensation of privilege is sustained at the direct expense of the masses of the poor whose progressive exclusion from access to income earning opportunities and state patronage ensures the continuation of their absolute and relative poverty.

The role of PEs can and has been used to serve these potentially contradictory goals of state policy. The government has intervened directly through land reclamation and irrigation projects to make land available and more productive to farmers. It has set up industries to give employment and produce goods for consumption of the low income groups. It has provided education, health and other social and physical amenities which are designed to assist the poor. Indirectly through the medium of credits, subsidies, fiscal instruments, price and distributive controls it has sought to benefit specific target groups.

To the extent that state enterprise designed to serve the poor is funded by appropriating surpluses generated by the upper income groups through the use of fiscal and other instruments such as strategy has both poverty ameliorating and redistributive implications. However, where such developments are funded by a more regressive fiscal mechanism including deficit finance and/or through external resource inflows, reduction of poverty may be realized without prejudice to the prevailing concentrations of economic power. Under certain circumstance it may even accentuate inequalities whilst reducing poverty in an absolute sense.

In contrast state enterprise may be explicitly directed towards curbing the economic power of elite groups both through asset redistribution, pre-emption of asset aquisition and exactions on the earning capacity of particular classes. Such initiatives may be intended to divert assets and income earning opportunities to the service of the poor but may not always serve such a purpose. To the extent that the surpluses generated from such appropriated assets are negative or diverted to benefit groups other than the poor public ownership may injure one group without benefitting the intended beneficiaries.

/It

4/ See "Redistribution with growth", Chenery et al. (53).

It will be the central theme of our paper that the particular bias of public enterprise will be conditioned by the prevailing dispensation of class forces within the polity.[5/] This will be crucial to the emergence and role of public enterprise, its capacity to generate surplus and the manner in which it surplus is distributed between contending social groups.

The analytical framework for this interpretation of the role of PE has been articulated elsewhere.[6/] In this paper it is therefore intended to use empirical data drawn from the experience of PEs in south Asia to illustrate the analysis rather than to quantitatively establish the properties of a rigorously formulated model analysing the distributive regimes of public enterprise. The discussion should, however, give some indication of relevant questions which such model builders may seek to incorporate in such an exercise. To the extent that the study uses social classes as stereo-types the argument cannot capture all the nuances of intra-class interests and even the specific role of particular individuals as leaders, policy makers or managers, who have contributed to giving a particular direction to policies or the affairs of some enterprises. Our analysis, however, seeks to traffic in the broader highways of public policy in order to see how far the general direction of policy towards public enterprise is dictated by the prevailing configuration of social forces within society.

II. PUBLIC ENTERPRISE AS AN ANTI-POVERTY INSTRUMENT

We may initially summarize some of the underlying assumptions which seek to extend public enterprise as an instrument for alleviating poverty.

The significant feature of public enterprise as it is defined for use in our study is that it represents command over productive resources by the State. This command over productive resources makes it possible for decisions relating to production, distribution, investment and consumption to be reconciled by the state within the framework of a socially determined set of policy objectives.

/At

5/ This theme has been conceptualized by the author (12) and more fully developed in the context of the PE study on Bangladesh (5). For a discussion of the nature of the state in relation to public policy and public enterprise there is a growing body of literature which the author has drawn upon to develop his analytical framework. These include the works of Kalecki (20) Bettelheim (13 and 14), Raj (16), Petras (13), Szentes (21) and Poulantzas (43) for discussing the conceptual issues. The role of state power in the specific context of particular LDCs have been articulated by Hussein (18) for Egypt, Shivji (19) for Tanzania, Patnaik (30), Dasgupta (48) and Jha (32) for India, Jiggins (46) and Jayaweera (47) and Sanmugathasan (26) for Sri Lanka.

6/ Ibid, Sobhan (12).

At the macro-economic level the net surpluses[7/] generated by public enterprises are directly within the control of the state and can be allocated to serve specific policy objectives which may, inter alia, be directed towards anti-poverty projects. The distribution of the surplus as between consumption and investment or between projects for the poor and guns for the armed forces are social decisions. To the extent that a regime is committed to serve the poor public enterprise thus emerges as a powerful resource to realize this objective both indirectly through its capacity to expand the productive forces and directly through its allocation of the surplus to the low income groups.

The full social potential of PE, however, does not stop at the surplus but relates to the entire allocative regime embodied within a public enterprises. Beginning from the regime of pricing and procurement of raw materials, and moving on to the compensation of employees, the terms on which capital is made available, the market regime and pricing of the output and ending with the budgetary appropriation of the surplus through direct and indirect taxes and decisions on the content and allocation of the post tax surplus, a regime has by virtue of its control over the enterprise, powerful instruments to benefit one group over another. Thus a regime wanting to benefit cultivators could pay them higher procurement prices. Alternatively it may raise workers compensation absolutely and relatively. It may choose to subsidize consumers of fertilizer, cloth, cement, edible oils or any other group serviced by a public enterprise. All are decisions which may be taken at the expense of the surplus of public enterprise but would represent a social decision designed to serve the poor represented as farmers, workers or consumers. To the extent that a public enterprise by virtue of its publicness is not constricted by the compulsion to maximize its profits latitude to serve specific interest groups becomes considerable. Its allocative decision then becomes a function of the balance of power between contending social groups in relation to the product of a particular enterprise. When we therefore talk of public enterprise as an instrument to alleviate poverty we must distinguish between its potential and the practice which will continue to be dictated by the balance of power between social groups contending to dominate state power. There is nothing axiomatic about the role of public enterprise in the service of the poor nor should its extension be seen as a proxy for the redistributive intentions of a regime.

/III.

7/ The term surplus is used to indicate the value created over and above the material and labour costs of the product and is not used in its Marxist sense. Where it is used as a quantitative measure the concept is more specifically defined.

III. PUBLIC ENTERPRISE AS AN INSTRUMENT OF CLASS WAR

In contrast to the potential uses of public enterprise as an allocative instrument it can also play a positive role in breaking or reducing the power of the dominant social classes in society. On the land, state and collective farms may be used to substitute plantations or large feudal estates owned by private interests. Of course, such institutions may also pre-empt individual small holdings and thus reflect the aggrandizement of state power over those of small farmers. This may or may not be a progressive step depending on the nature of state power.

In the capitalist sector, however, state enterprise can be used more categorically as an instrument of class war directed against an established foreign or local interest. Extension of public enterprise may here be used to redistribute assets from private to public ownership through nationalization. This may be supplemented by pre-emptive measures designed to exclude private enterprise from certain segments of the economy and/or above a certain level of investment. These sectors would by definition be reserved for public enterprise. To assign such a role to public enterprise may be designed to reduce concentration of private asset ownerships and/or the monopoly of power within society which goes with such concentrations of wealth. Such a move may explicitly or by implication seek to reallocate economic and social power away from the bourgeoisie to the masses but may end up in the hands of an aspirant petty bourgeoisie which uses public enterprise as its own particular instrument of class war to re-appropriate the surplus for its own sectional interests.

A review of the south Asian experience will make it evident that both anti-poverty and anti-bourgeois motives have conditioned the role of public enterprise.[8/] However, these objectives have not necessarily coincided with the goal of helping the poor and in some cases may have served a contrary objective. We will therefore review the role of PEs in south Asia in terms of the nature of state power and its impact on the emergence of PEs in relation to the role of the private sector. This will enable us to interpret the role and performance of PEs and the distributive regimes associated with public enterprise in south Asia.

/IV.

8/ For a fuller discussion of the political economy determining the emergence of public enterprise in the wider Asian context see Sobhan (11).

IV. THE NATURE OF THE STATE IN SOUTH ASIA

The nature of the post-colonial state was decisively conditioned by the character of the freedom movement in the respective countries. The Indian independence movement brought to power an established and self-confident national bourgeoisie. This class had dominated the nationalist movement. It had thrown up a cadre of seasoned administrators who by 1947 were fully equipped to take over, where they had not already done so, the reins of bureaucratic power. At the professional level the withdrawal of the British gave opportunities hitherto denied to the now mature and skilled professionals of India.

It was, however, in industry and commerce that the most lucratic opportunities emerged for the indigenous commercial and industrial bourgeoisie. Up to independence this class had been strong supporters of the nationalist movement. They saw independence as an opportunity to seek state protection and patronage to both expand and pre-empt the dominance of the Indian economy by British capital.[9/] The growth of this class in the pre-independence movement may be seen by the fact that the number of Indian companies increased both relatively and absolutely between 1901 to 1951,[10/] compared to European companies as did the number of directorships in those companies. Table 1 shows this trend. Within the Indian bourgeoisie, however, some of the established business communities such as the Marwaris, Parsis and Gujeratis dominated this Indianization of business.[11/] On the eve of independence the European business community was already coming to terms with the ascendant power of the Indian bourgeoisie as may be seen from the growth of joint or mixed companies, where Indian partnership was seen as essential for survival in post-colonial India. In the immediate aftermath of independence the Indian bourgeoisie could effectively move to take over business, administration and the professions, having already acquired the capability of controlling and running a bourgeois nation state.

In contrast in Sri Lanka and Nepal the post-colonial economy contirued to be dominated by the metropolitan bourgeoisie. In Nepal[12/] the economy by virtue of its remaining a part of a common currency union with India continued to be dominated by the Indian bourgeoisie. Within Nepal the bulk of its commerce and finance was controlled by Indian capital and its trade was

/Table 1.

9/ For a discussion of the attitudes of Indian capitalist class before independence see Mukerjee (29).

10/ See Chaudhuri (35) for a review of the growth of the Indian bourgeoisie before independence.

11/ Ibid.

12/ See Nepal study (4).

Table 1. Distribution of industrial control by community, frequency distribution of companies and directorship by community, 1911-1951

Communities	Frequency distribution of companies			Frequency distribution of directorships		
	1911	1931	1951	1911	1931	1951
British	282	416	382	652	1335	865
Parsis	15	35	19	96	261	149
Gujaratis	3	11	17	71	166	232
Jews	5	9	3	17	13	-
Muslims	-	10	3	24	70	66
Bengalis	8	5	20	48	170	320
Marwaris	-	6	96	6	146	618
Mixed control	28	28	79	102	121	372
Total	341		619	1016	2282	2622

Source: M.M. Mehta, Structure of Indian Industries (Bombay 1972) and reproduced by Asim Chaudhuri, Private Economic Power in India, table 16, page 46.

/correspondingly

correspondingly oriented towards India. Industry was limited and thus what existed was largely controlled by Indian capital. Even in the professions Indians dominated so that a Nepalese elite drawn largely from the landowning classes could only manifest itself in the administration and armed forces.

In Sri Lanka[13/] the freedom movement was largely dominated by the landowning elites with their stake in plantations and land ownership. This class had thrown up an educated English speaking elite which had established itself in the bureaucracy and professions from whence they could join the landowners in their attempt to capture state power.[14/] The post-independence state therefore saw the continuation of British dominance of the economy through control of the export oriented plantations, commerce, finance and some industry. There was little in the way of indigenous private industry and indigenous participation in trade was also limited.

In Pakistan, however, the partition of India had a more traumatic impact on the post-colonial state. The communal carnage saw the complete withdrawal of the Hindu bourgeoisie which had dominated trade and commerce in the regions which came to constitute West Pakistan. This vacuum was, however, rapidly filled up by the arrival of immigrant trading communities from India, Memons, Bohras and Ismailis who first moved into trade and thence into industry with the full patronage of the state in both West and East Pakistan.[15/] Their progression in the West was unchallenged and thus moved at an accelerated pace. In the East Wing, now Bangladesh, they, however, had to contend with the hitherto dominant Hindu and Marwari trading interests who contrived to retain a presence in the regional economy. However, with the full backing of the State and faced with the lack of economic commitment of the Hindu bourgeoisie to stake their future in Pakistan, by 1959 the structure of private ownership in manufactures in East Pakistan came to be dominated by a West Pakistan based bourgeoisie.[16/]

/The

13/ See Sri Lanka study (3), Sanmugathasan (26) and Wilson (27) for characterization of post-colonial state in Sri Lanka.

14/ See Jayaweera (47) for role and configuration of the nationalist movement in Sri Lanka.

15/ See G. Papanek (22) and H. Papanek (23) for development of the Pakistani bourgeoisie.

16/ See Sobhan and Ahmed (5).

The marriage of interests as between an immigrant trading and industrial bourgeoisie based in West Pakistan with a West Wing based bureaucracy, armed forces and landowning elite created a pattern of state power highly conducive to the rapid growth of both the bourgeois and feudal classes of West Pakistan. This development was, however, realized through the use of state power to monopolize resources for the development of the West Wing at the expense of the East Wing. In the process the economy of the East Wing came to be completely dominated by a West Wing based bourgeoisie. The structure of private ownership in the East Wing on the eve of Independence as shown in table 2 indicates that only 27.7 per cent of fixed assets in manufacture, 30 per cent of bank deposits, 10 per cent of insurance business was in the hands of an indigenous bourgeoisie.[17/] Inland water transport, foreign and interwing trade, some areas of wholesale trade along with banking, insurance and industry was completely dominated by a non-indigenous bourgeoisie. The emergence of Bangladesh through an armed struggle saw the dramatic withdrawal of the West Pakistani bourgeoisie and the emergence of a complete vacuum in the urban economy.

The domination of the Bangladesh economy by the West Pakistan bourgeoisie has inhibited the growth of an indigenous bourgeoisie, so that the growth of this class was a phenomenon of the 1960s which left them quite unprepared to fill the vacuum created by the Liberation War.[18/]

To summarize the position, at independence only India had an established bourgeoisie to assume power. In Sri Lanka and Nepal the ruling elites remained essentially comprador in character with a metropolitan bourgeoisie still in command of the economy. In Pakistan a potential vacuum was rapidly filled up by the development of a West Wing based bourgeoisie under sponsorship of state power. Only in Bangladesh did a complete vacuum emerge as a consequence of the violent denouement of the freedom struggle which had to be filled by the direct intervention of the state.

The configuration of power prevalent at the time of independence did not hold firm over the years. We have seen that in Pakistan a trading bourgeoisie was transformed into a full-fledged industrial bourgeoisie. Within two decades of independence 43 families came to control 51.5 per cent of manufacturing assets, 80 per cent of bank deposits and 49 per cent of insurance assets.[19/] This concentration of power generated increasing

/Table 2.

17/ Ibid.

18/ Ibid., for position of Bengali bourgeoisie at liberation.

19/ For discussion of concentration of wealth in Pakistan see White (25).

Table 2. Structure of private ownership in Bangladesh on the eve of independence

	Percentage owned by		
	Bengali	Non Bengali Pakistani and foreign	Public enterprise
Fixed assets in the modern industrialized sector (1969/70)	18	48	34
Bank deposits	18	82	-
Insurance business (life) (1969/70)	10	90	-
Jute trade (share of exports) (1969/70)	33	37	30

Source: Sobhan and Ahmed (5), pages 5-7, 5-8, 11-2, 11-9 (table 11.2).

/contradictions

contradictions within the polity. The emergence of Bangladesh was the more dramatic consequence of the tentions within the system.[20] However, even within West Pakistan, Z.A. Bhutto managed to put together a coalition of urban petty bourgeois, workers, small landlords and even some feudal elements in the Peoples Party (PPP) to challenge the prevailing power structure.[21] The breakup of Pakistan sufficiently undermined the power of the ruling elites to enable the PPP to push through a series of nationalization measures designed to break the power of the 43 families, though without prejudicing the over-all scope for bourgeois development.[22] Land reforms were, however, more modest in their outcome so that the social power of the landowning classes remained intact, even though some land was made available for redistribution and some protection was afforded to tenant farmers.[23]

By contrast in India the configuration of social power remained much less affected. The compulsions of mass politics infected the rhetoric of the ruling Congress Party with commitments to "socialism", but in practice this was seen as no more than extending the scope of public enterprise, without in any way curbing the growth of the private sector.[24] Indeed as it will be seen in the next section public policy and public enterprise itself became an important instrument for bourgeois development. It was not till later that any positively inimical move against established class interests of the bourgeoisie was attempted through the nationalization of life insurance[25] and later of the commercial banks. Even here state control of credit was not inimical to the bourgeoisie as a class merely opening up more opportunities for middle and small business than had been hitherto available.[26] Other measures, including the takeover of "sick" industries were entirely consistent with the policy of using state resources to promote the growth of the bourgeoisie.

Under a different configuration of power, less dependent on popular support, the big bourgeoisie could perhaps have become even stronger than they did. But sectoral constraints on their expansion within the manufacturing sector did little to curb their absolute growth or even limit their monopoly of power and resources.[27]

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20/ Op. cit. Sobhan and Ahmed.

21/ See Syed (49) and Saeed (52) for assessing the configuration of the PPP and the role of Bhutto.

22/ See Burki (50) for a discussion of the logic of PPP reforms and Brown (51) for impact of these reforms.

23/ Ibid., Burki.

24/ Op. cit. Choudhury for a discussion of this interpretation of public enterprise in India.

25/ Life insurance in India was in fact nationalized in 1956, commercial banks in 1969.

26/ Op. cit. Choudhury.

27/ Ibid. for discussion of limits to growth of the private sector in India.

In Nepal the state continued to be dominated by a feudal elite. Though as this class consolidated its position it sought to reduce the influence of the Indian bourgeoisie over its economy and external affairs. This process was initiated through a judicious blend of State intervention and diversification of external sources of finance and alignments. In this state directed initiative, state resources and policies came to be explicitly directed towards the building up of a national bourgeoisie from out of elements of the ruling feudal elites.

In Sri Lanka again the pressures of popular politics shifted the power base from the comprador and feudal elites represented by the UNP[28/] towards a greater involvement of the petty bourgeois elements in the exercise of state power. Even though this initiative was led by the SLFP[29/] created by the late S.W.R. Bandaranaike, who along with other party leaders were from the same class base as the UNP, the SLFP itself was much more explicitly committed to mobilize a wider constituency. At the village level small farmers, vernacular school teachers, Buddhist priests, practitioners of indigenous medicine, became the standard bearers of the Party seeing it as an instrument to undermine the existing feudal power structure.[30/] Within the urban centres, small businessmen and professional classes could align with the working class in the hope of using state power to promote the development of the petty bourgeoisie at the expense of the comprador and metropolitan bourgeoisie.

It is significant that the policies of the SLFP led coalitions of 1956-1965 and 1970-1977 were characterized by attempts to undermine the feudal and comprador interests rather than to explicitly undermine or even curb the nascent national bourgeoisie. The class oriented legislation of the SLFP led coalition initially hit at the comprador interests through a takeover of petroleum marketing (1961) extension of public control over banking through the creation of the People's Bank in 1961 and more specifically at the feudal classes in the earlier Paddy Lands Act (1958).[31/] However, it was only in the

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28/ The UNP is the acronym of United National Party which led the independence movement for Sri Lanka.

29/ The SLFP is the acronym for the Sri Lanka Freedom Party.

30/ See Wilson (44) and Jayweera (47) for social base of SLFP.

31/ See Sri Lanka study (3) for policy measures extending public enterprise and Wilson (44) for interpretation of these measures.

last phase of the regime after the 1970 electoral victory of the United Front led by the SLFP that a full scale onslaught on the feudal and comprador interests was carried through in the various phases of the land reform. Those legislations have taken over plantations hitherto dominated by British and comprador interests and limited land ceilings to 25 acres. This has yielded 400,000 acres out of 1.2 million acres declared by 5,500 large landowners.[32/] The reform has in effect restructured the rural power base towards small landlords and other groups identified with the SLFP without necessarily mobilizing the masses. The reform itself appears to have been dictated by the political anxieties within the party generated by the armed insurrection led by the JVP[33/] which mobilized the unemployed and poor of the rural areas to challenge state power in 1971.[34/] The takeover of paddy marketing and coconut marketing again appeared to be designed to serve small farmers at the expense of comprador and some trading interests. The impact of the SLFP led coalitions have been largely successful in destroying the feudal and comprador class and creating conditions for the growth of a national bourgeoisie based on small and medium industry, trade and small landholders. The overwhelming defeat of the SLFP in recent elections by the UNP is thus unlikely to see restoration of power to the ancient ruling classes of Sri Lanka. It is more likely to reconcile the interests of the dispossessed landowning interests and the aspirant bourgeoisie which grew up in the last two decades.[35/] This coalition is likely to be underwritten by public enterprise and external resource transfers in the way of aid and equity capital. These appear to be essential elements in building up an as yet emergent and unsure national bourgeoisie.

In Bangladesh, the liberation struggle had been dominated by workers, peasants, students and petty bourgeois elements led by the Awami League which was a classical petty bourgeois based party.[36/] Post-liberation policies reflected the course of the armed struggle. The Pakistani-based metropolitan bourgeoisie withdrew but the upper bourgeois elements could not fill the

/vacuum.

32/ Ibid., Wilson (44).

33/ JVP is the acronym for Janatha Vimukthi Peramuna (Peoples Liberation Front).

34/ See Wilson (44) for interpretation of land reforms as a response to the JVP led insurrection.

35/ Op. cit. Jayaweera (47) for interpretation of UNP victory.

36/ Op. cit. Sobhan and Ahmed (5) for a full discussion of the impact of the liberation struggle on state power in Bangladesh and the thrust of state policies towards the bourgeoisie.

vacuum. Indeed state power not only moved to nationalize Pakistani enterprises but to dilute the nascent Bangladesh bourgeoisie through nationalization of their holdings in the jute, textiles, sugar industry and in banking and insurance. Further legislation pre-empted the growth of an upper bourgeoisie by putting a ceiling of Tk 2.5 million on ownership of fixed assets in industry, excluding them from equity collaboration with foreign enterprise and reserving the bulk of external trade, including jute to public enterprise.

The thrust of state policy was thus explicitly directed towards frustrating the growth of a capitalist class in Bangladesh. This objective was substantially realized up to the change of regime in August 1975 in spite of some attempts to expand investment opportunities for the private sector. Petty bourgeois elements, however, used their control of state power to extract surpluses from the public enterprises through trading franchises. This trend in the development of the bourgeoisie was, however, pursued outside the legitimacy of State policy.[37/] Such acts of primitive accumulation could always attract punitive action when patronage was withdrawn.

There was thus no scope for a trading bourgeoisie to consolidate itself as a social force anchored within the system of production relations.

The military regime which assumed power in August 1975 sought to legitimize the trading bourgeoisie and resurrect the dispossessed industrial bourgeoisie whose aspirations had been drastically frustrated by the nationalization policies. The current thrust of state policy reflects an attempt to revitalize the private sector.[38/]

V. IMPLICATIONS OF THE NATURE OF THE STATE FOR DETERMINING THE ROLE OF PUBLIC ENTERPRISE

The emergence and transformation in the nature of state power in south Asia was directly reflected in the role ascribed to public enterprise within the development process of these countries. In India a regime dominated by a strong national bourgeoisie came to expect public enterprise to perform a supportive role in the development of the bourgeoisie. This perspective towards public enterprise had been articulated even before independence by the Indian capitalist class who saw public enterprise as an

/instrument

37/ Ibid.

38/ See World Bank report on industry in Bangladesh (38) for measures taken by the new regime to promote private industry in Bangladesh.

instrument to be used to oust foreign capital from control of key sectors within the economy.[39] The radical rhetoric which provided the public rationale for the extension in the role of public enterprise was not seen as a serious constraint to the growth of the private sector. State supported financial institutions were a major source of capital to support the growth of the private sector. State enterprises provided an assured supply of capital and intermediate goods, as well as critical infrastructure services, in many cases at subsidized prices which was crucial to the expansion of the private sector.[40]

Public enterprise came to play a similar role in explicit support of the bourgeoisie in Pakistan, and Sri Lanka in the pre-1970 phase and for Nepal throughout this period. In Nepal it was accepted that the Nepalese elite had neither resources or skills to set up large and even medium scale industry. Unless this was to be left open to Indian capital state enterprise had to play both a pioneering role and one of pre-empting the further extension of foreign capital into the economy.[41]

In Pakistan which includes the area which is now Bangladesh the state intervened directly through the Pakistan Industrial Development Corporation to both finance and set up large scale industries where private resources and enterprise initially proved inadequate. Many of these industries were subsequently handed over to the private sector who in some cases had been associated with the project from the outset. State financial institutions provided loan and equity capital to support the growth of private enterprise.[42]

In Sri Lanka state financial institutions played a crucial role in the growth of the private sector as did public enterprises provide imports and services to support the growth of this class.[43]

In only Bangladesh and Pakistan after 1971 did public enterprise grow explicitly with a view to frustrating the growth of national bourgeoisie or reducing their power. Some element of pre-emption was also manifest in the rapid growth of public enterprise in Sri Lanka after 1970.

/However,

39/ Op. cit. Mukerjee (29).
40/ Op. cit. Chaudhuri (35) for supportive role of PE in India.
41/ Op. cit. Nepal study (4).
42/ Op. cit. Sobhan and Ahmed.
43/ Op. cit. Wilson (27)

However, within these five countries it was only in Bangladesh that there was both an absolute and relative decline in the role of the private sector compared to the pre-nationalization period. In table 3 we present figures for the growth of both public and private investment and their relative growth within the national economy. The table shows that in all five countries public enterprises grew rapidly in numbers and real value of assets. This growth was, however, always matched by the growth of investment in the private sector, except in Bangladesh. As a result the table shows that in India, in spite of an increase of 70 per cent in the level of capital formation in public enterprise the share of public enterprise had declined from 36 per cent to 30 per cent in total fixed capital formation. Indeed averaging out over successive periods as between 1960-1965, 1966-1970 and 1970-1973 there is a secular decline in the share of public enterprise. The last two time phases in fact coincided within an escalation in the rhetoric in support of public enterprise and the radical intentions of the regime.

In Pakistan which witnessed dramatic increments in the 1970s in the number of public enterprises as well as investments in the public sector, the private sector investment declined both absolutely and relatively after 1971 in fixed capital formation. However, another set of indexes shown in table 3 bring out the fact that in the manufacturing sector, in real terms there was an absolute and relative decline in private investment. This being the area where the big bourgeoisie was under direct attack it seems they merely moved into other sectors of the economy.

Paradoxically only in Nepal did public enterprise raise its share of capital formation even though its growth was less explosive. In all these four countries it is thus quite apparent that a strong bourgeoisie drew sustenance from the growth of public enterprise and grew as rapidly, rather than face any abridgement in their growth prospects as a result of the extension of public enterprise. In Nepal in spite of an explicit idealogical commitment to promote private enterprise the weakness of the bourgeoisie put the burden of capital formation on the public sector.

Again only in Bangladesh do we witness any diminution in the role of private enterprise. Unlike the other countries there is no consistent time series to compare trends in capital formation. Estimates for the

/Table 3.

Table 3. Relative and absolute growth of public and private investment (constant prices)

Year	Bangladesh[a]		India		Nepal[b]		Pakistan[a]		Sri Lanka[c]	
	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector
1969/70			100 (36)	100 (64)			100 (11)	100 (89)		
1970/71			115 (40)	100 (60)	100 (14)	100 (86)	37 (5)	97 (95)	100	
1971/72			126 (43)	96 (57)	42 (6)	107 (94)	40 (6)	80 (94)	55	
1972/73			133 (41)	107 (59)	277 (38)	78 (62)	112 (21)	55 (79)	192	
1973/74	100 (92)	100 (8)			131		223 (39)	44 (61)	96	
1974/75	65 (87)	113 (13)					514 (54)	55 (46)	79	
1975/76	97 (92)	100 (8)					697 (64)	50 (36)		
1976/77	95 (83)	223 (18)								
1977/78		348								

Sources: Bangladesh: computed from World Bank reports, December 1978 (38).
India: Tables SI.2, SI.2.1 appendix to chapter 4 (1).
Nepal: Table A1, pages 56 & 57 (4).
Pakistan: computed from table 16, Statistical Section, Pakistan Economic Survey 1976/77 (39).
Sri Lanka: Table 5.2 (3).

Notes: a/ The figures for Bangladesh and Pakistan refer to manufacturing industry only.
b/ The public sector figures of Nepal are for GFCF of the public enterprises and the private sector figures are a residual of the national GFCF minus that of the public enterprises. Note: the growth rates are in terms of current prices.
c/ The public sector figures for Sri Lanka are for the GFCF in public enterprises only.

/period

period 1972-1975 show that 18.5 per cent of realized investment was in private enterprise. A rather different time series used in table 3 shows that in the period between 1974-1978 the share of private to public investment in the manufacturing sector was raised from 8 to 18 per cent. A change in policy in 1975 designed to promote the interests of the national bourgeoisie raised the absolute and relative share of private investment but could not get it beyond 17.5 per cent which was well below the 66 per cent of fixed assets controlled by private enterprise before liberation. Comparisons with the pre-liberation situation are, however, not included in the table because estimates of private savings and investment do not distinguish between the contribution of the national and metropolitan bourgeoisie from West Pakistan. Within our analytical and historical framework this distinction is important because it would define investments from West Pakistan as foreign investment. This would enable us to say little about the capability of the indigenous bourgeoisie to save and invest in contrast to the external bourgeoisie and the public sector.

In order to derive some perspective on the relative share of private investment in pre- and post-liberation Bangladesh we present figures for development expenditure for the whole economy in table 4. These figures are not comparable to figures on fixed investment since development expenditures involve some elements of current expenditure.

The table shows that even before liberation public expenditure in Bangladesh was dominant. However, the dominance of the public sector in the regional economy was contrasted with the dominance of the private sector before liberation in some areas such as manufacture. The escalation in the share of the public sector after liberation was consistent with past patterns but in the manufacturing sector there was a reversal of the trend.

This tendency in the manufacturing sector reflected the anti-bourgeois bias of the post-liberation regime in Bangladesh, where its initial assault on the bourgeoisie was sustained by its subsequent allocative biases in public expenditure. Indeed even in the case of public sector financial institutions, which in all other south Asian countries were not only overwhelmingly oriented towards support of the private sector but directly instrumental in their rapid growth, the biases were against the private sector. As between 1972-1975, 79 per cent of loans sanctioned by the two state sponsored insitutions for financing industrial development went to

/Table 4.

Table 4. Development expenditure during the 1960s and the post-liberation period (in percentage)

Years	Structure of development outlay		
	Private Sector	Public Sector	Total
1950/51 to 1954/55	30	70	100
1955/56 to 1959/60	27	73	"
1960/61 to 1964/65	31	69	"
1965/66 to 1969/70	33	67	"
1972/73 to 1977/78 (First Five Year Plan of Bangladesh)	21.5	84.5	

Source: Table 4.1, table 17.13 i.e., pages 4-1, 17-27 Bangladesh (5).

/public

public enterprise.[44] This bias began to be corrected only after the change of regime. Between 1975-1978 the share of loans sanctioned to the private sector rose to above 50 per cent.[45] This, however, was insufficient to offset the channelling of development resources through the budget towards public enterprise but does reflect a change of intention.

This trend in the pattern of investment is reflected in the relative shares of public enterprise in the GDP. In table 5 we present the share of both the public sector and within it a subset for public enterprise. The figures show that in spite of the rapid expansion in the role of public enterprise in all countries the share of public enterprise as a subset remained modest with a high of 12.3 per cent for Sri Lanka. Figures for the public sector as a whole presented in table 5 indicate that the role of government in the economy as defined by the public sector is much larger than for public enterprise which applied by definition to the commercial role of the government in the economy.

Both figures for the PE subset and the public sector reflect the dominance of agriculture where in all but Sri Lanka agriculture is largely under private control. Only in Sri Lanka the nationalization of the plantations has now placed a large part of value added from agriculture under direct control of public enterprise. This measure would thus raise the share of PE in the over-all GDP above 12.3 per cent.[46]

If, however, we abstract the agricultural sector from GDP estimates we then find that the role of public enterprise is the most dominant in Bangladesh and lowest in Nepal. This reflects the continued domination of the non-agricultural sector in Nepal by a foreign bourgeoisie in spite of the growth of public enterprise.

In the other countries it shows that outside agriculture the relative strength of the national bourgeoisie tends to be related to the

/Table 5.

44/ Op. cit., Sobhan and Ahmed.

45/ Computed from data in Bangladesh Economic Survey (42).

46/ The PE for Sri Lanka (3) from which data on share of PEs in GDP was derived did not take into account the impact of the 1975 land reforms.

Table 5. Share of the public sector and public enterprise in the national economy (in percentage)

	Year	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Share of PEs in						
GDP	1960-1962		5.3		4.9	5.7
NAGDP			11.7		9.1	
GDP	1965-1967		7.3		4.7	
NAGDP			12.1		8.0	
GDP	1969-1970		7.9	0.8	4.6	
NAGDP			15.1	2.5	7.5	
GDP	1972-1973	6.5	9.4	1.1	6.2	11.0
NAGDP		16.2	16.9	3.1	9.7	
GDP	1974-1975	7.1		2.0	8.9	12.3
NAGDP		17.2		5.5	13.4	
Share of public sector in						
GDP		16.3[a/]	17.0[b/]		15.9[c/]	19.8[c/]
NAGDP		44.2[a/]	30.1[b/]		23.7[c/]	

Sources: Bangladesh: Table 17.5 Bangladesh study.
India: Tables N2, G2 India study.
Nepal: Table V2 Nepal study.
Pakistan: Tables 23, 24 Pakistan study, part II.
Sri Lanka: Table 4.3, p. 7.11 Sri Lanka study.

Notes: a/ These figures are for 1973/74.
b/ These figures are for 1972/73.
c/ These figures are for 1974/75.

/share

share of value added by public enterprise. In Pakistan before the takeovers of 1972 the share of PEs was 7.5 per cent in 1969/70. This had risen to 13.7 per cent in 1973/74 which put it close to the Indian position in 1972/73, but still some way behind Bangladesh. Lack of figures about value added for non-agricultural GDP vitiate any comparison for Sri Lanka but the rise in value added from public enterprise from an index of 262 in 1970/71 to 423 in 1974/75 would indicate that its relative share had also increased to a point much closer to Bangladesh in terms of non-agricultural GDP.

VI. PERSPECTIVES TOWARDS PUBLIC ENTERPRISE

It is central to our analysis of the role of public enterprise that the character and interests of the socially dominant groups determine the share and role of public enterprise in the economy. Insofar as public enterprise plays a supportive role to the development of the bourgeoisie there is little scope for conflict over its role in the economy. The private sector in Nepal and initially in India, Pakistan, Sri Lanka and pre-liberation Bangladesh saw public enterprise as a market, source of supply and finance to promote its expansion. Where, however, the bourgeoisie as a class has become stabilized and self-generating as a class it may come into potential conflict with public enterprise both as a competitor in common markets and in areas reserved for public enterprise. In India this stage was reached by the 1950s. Indeed by this time there was no area of investment beyond the skill or resources of the Indian capitalists. Technology and capital deficiencies where they existed were being rapidly compensated by collaboration with foreign capital and state financed credits.[47/] At this stage the bourgeoisie became much more critical of the extended role of the public sector and used their power to secure entry into seven out of seventeen industries which had been exclusively reserved for public enterprise. In the schedule B industries which were to be an area of mixed enterprise but to be progressively taken over by the state, the private sector not only resisted encroachments from public enterprise but expanded considerably. Indeed such was the climate that private capital was being associated with public enterprise and scions of the big business houses were being given directorships on the boards of public enterprise.[48/] The concept of curbing the concentration of wealth by nationalization and limits on the growth of big business implicit in the 1956 Industrial Policy Resolution of the Congress Party had by the end of the decade been abandoned

/both

47/ See Patnaik (30) and Dasgupta (48) for changing perspectives of Indian bourgeoisie.

48/ See Chaudhuri (35) for attenuation of the public sector and growth of private sector.

both in practice and rhetoric.[49/]

In these circumstances with the private sector pressing forward into hitherto sacrosanct areas the fiction of the mixed economy began to look somewhat exposed. Here at this phase the big business houses saw public enterprise as a potential constraint on their areas of expansion, in contrast smaller and even medium sized firms continued to see such enterprises as a source of assured and even subsidized supplies. Access to their products was not always a function of the market and political access could play as important a role in securing access and perpetuating a regime of subsidies and controls.[50/]

In Pakistan, by contrast, public enterprise up to 1971 was never regarded as a potential threat or even constraint to private enterprise. Successive regimes had made it quite clear that public enterprise in the manufacturing sector would be handed over to private enterprise as and when there were any takers. This was indeed then realized in practice on a large scale when public enterprises were disinvested on highly favourable terms to private buyers.[51/] By the mid-1960s there was no area of enterprise excluded to private enterprise who were setting up large scale projects with sophisticated technology in petro-chemicals, engineering and even planning a steel mill, all with foreign collaboration. Only in the East Wing was public enterprise used as an instrument of entrepreneurial pre-emption because of the political compulsion to limit the inroads of the West Wing bourgeoisie into the regional economy.[52/] During the period up to 1971 the bourgeoisie in both Wings continued to perceive public enterprise as a resource to help their growth rather than a challenge to their control of the economy.

This perspective always informed the attitude of the Nepalese bourgeoisie and up to 1970 even the attitude of the Sri Lanka bourgeoisie. As a class they were yet to reach a stage where public enterprise was seen to pre-empt the possibilities of their growth.

After 1970/71, however, there was a perceptible change in the perspectives of the bourgeoisie towards public enterprise in Pakistan, Sri Lanka and Bangladesh. In the case of Sri Lanka the threat was pre-emptive. The expansion in the size of public enterprise and the accompanying rhetoric indicated that for the future private enterprise may face

/restraints

49/ Ibid.

50/ Jha (32) develops this thesis of the growth of an "intermediate" class in India.

51/ See Pakistan study (2) and Hexner (54) on disinvestment policies of PIDC.

52/ Op. cit., Sobhan and Ahmed (5).

restraints on its growth. Though as we have seen for the moment there was no visible constraint on its relative and absolute growth. In contrast in Pakistan and Bangladesh there was a direct assault on the big business houses who saw the extension of public enterprise coincide with a positive abridgement of their areas of activity both in the present and future. In Pakistan this applied largely to big business but in Bangladesh the entire private sector was rolled back. It was thus hardly surprising that in both these countries the bourgeoisie which had grown up in an environment of total state patronage should emerge as deadly enemies of public enterprise who hoped to restore their fortunes through the direct abridgement of the role of public enterprise. In both these countries public enterprise became the centre of the political dialectic within the bourgeoisie, with the bigger business houses using their influence within the regime to denigate and undermine the viability of public enterprise. In these circumstances policies to improve performance and generate surpluses in public enterprise with a view to ensuring their viability themselves became politically contentious issues as long as a powerful component of the dominant classes retained a vested interest in the failure of public enterprise.[53/]

VII. THE ROLE OF THE PRIVATE SECTOR IN SOUTH ASIA

Within our framework of analysis it becomes important to briefly review the position and policies towards private enterprise within the countries of south Asia. To the extent that the role and perspectives towards public enterprise are conditioned by the development of the bourgeoisie in these countries it becomes critical to our understanding of public enterprise to review policies towards the private sector. In table 6 we seek to summarize areas of the non-agricultural sector where private enterprise is still dominant in south Asia with some indication where available of quantitative measures. The table brings out the fact that over the last decade the private sector has lost ground in banking and insurance through nationalizations in India, Pakistan, Sri Lanka and Bangladesh. Though in India the private sector still remains dominant in banking. By contrast the private sector retains its dominance in manufacturing in terms of value added in India, Pakistan and even Sri Lanka. However, in Bangladesh after the 1972 nationalizations private enterprise has been significantly reduced in terms of its relative position and in

/Table 6.

53/ Ibid., for developing this thesis for Bangladesh.

Table 6. The non-agricultural sectors where private enterprise still dominants. Percentage shar of value added by private enterprise in GDP

	Bangladesh	India		Pakistan		Sri Lanka	
	1973/74	1959/60	1972/73	1959/60	1973/74	1960/61	1973/74
Non-agricultural sectors							
Mining	50.7	86.8	63.7	76.3	89.9	100.0	99.5
Manufacturing		94.5	86.7	97.9	91.9	98.2	66.5
Electricity	45.1	31.4	16.2	15.0	22.5	10.1	6.5
Construction	99.6	96.0	95.2	100.0	100.0	100.0	93.2
Trade	90.2	99.6	96.8	100.0	92.1	94.6	89.4
Transport	90.2	35.8	38.6	37.7	66.3	63.5	54.4
Finance	14.1	91.5	74.6	100.0	32.5	50.4	5.5
Service		99.7	98.4				99.0

Source: Table III.1, chapter III, Il Sa Kong (6).

/the

the size of its enterprises. However, in the foreign trading sector private enterprise has also experienced erosion in its position in Pakistan, Sri Lanka and Bangladesh. In domestic trade, however, in all countries private enterprise remains overwhelmingly dominant. Though even here state trading has made inroads in all countries. In domestic transport, the fact that rail and air transport are under public ownership has restricted private enterprise to road, river and ocean transport. Here again in bus services in all countries the private sector has given ground. In inland water transport in Bangladesh its share was abridged after 1972 whilst both nationalization in Pakistan and extension of state ownership into ocean shipping has reduced the relative importance of private ownership in all countries.

VIII. SOCIAL BASE OF THE PRIVATE SECTOR

The relative strength of the private sector remain related to their social base within the system. In both India and Pakistan private enterprise had shown a high degree of ethnic concentration. Long established trading and business communities such as the Marwaris, Parsis and Gujeratis in India[54/] and the Memons, Bohras, Ismailis and Chiniotis in Pakistan[55/] have come to dominate industry, commerce and finance in their respective countries. The common tendency towards agglomeration of power and concentration of wealth in these two countries owes as much to this ethnicity as to the nature of state policy. In Pakistan, however, the return to popular politics after 1971 exposed the political vulnerability of an immigrant business community without any popular roots.[56/] The attack on big business could thus be more easily sustained because there was no wider political constituency to be mobilized in their support.

In contrast in Nepal and Bangladesh there was really no indigenous business community even as recently as the 1960s with business being the monopoly of outsiders. In both countries the creation of a capitalist class was directly the result of political decisions to extend state patronage to create such a class. In Nepal the feudal ruling elite became the beneficiaries of their own policies. However, in Bangladesh the policy to create a capitalist class involved arbitrary allocative decisions, based on political access, to pick up elements within the petty bourgeoisie and elevate them to the status of capitalists.[57/] In Sri Lanka again there was no significant business class though some families had become prominent during the 1950s and 1960s.

/The

54/ Op. cit., Chaudhuri (35).
55/ Op. cit., H. Papanek (24).
56/ Op. cit., Burki (50).
57/ Op. cit., Sobhan and Ahmed (5).

The main source of class formation, however, remained the feudal and comprador elites and some small business elements who could take advantage of the policies and resources directed towards the development of a private sector.

It would appear that only in India had big business over the years managed to establish a secure base in the power structure of the national polity. Though here they had to contend with the diverse interests of small and medium business interests who became competitive claimants for patronage from public enterprise. In Pakistan, whilst the immigrant groups have lost ground over the years the base of the bourgeoisie has diversified very considerably so that in most of its component regions both indigenous business and professional classes as well as the feudal classes have entered the ranks of trade and industry. As a result the bourgeoisie is much more broad based and has been able to withstand the assault on the big business houses.

In Nepal there is no contradiction within the ruling elite where feudal and capitalist interests coincide, so that a bourgeoisie can, under the current dispensation expect to go on expanding its power base. Only in Sri Lanka and Bangladesh does the capitalist bourgeoisie retain a rather tenuous foothold due to its weakness within the polity and its recent origin. In both countries the state will remain crucial to their fortunes and will determine whether they can consolidate themselves as a social force or face a progressive erosion at the expense of public enterprise backed by petty bourgeois forces within the polity.

IX. POLICIES TOWARDS THE PRIVATE SECTOR

All the countries pursued a broadly similar strategy towards promoting the development of a bourgeoisie. In the manufacturing sector a policy of import-substituting industrialization was pursued behind a regime of import controls, overvaluation of the exchange rate and industrial licensing.[58/] The policies may have been dictated by external resource constraints but they contributed to the choice of inappropriate technology, under-utilization of capacity and atrophy within the industrial sector. Whilst the system kept a large number of inefficient small and medium sized industries in business it also lent itself to growing concentrations within the private sector. The high profits reaped by the large enterprises at the expense of the agricultural sector and domestic consumer was used for improving their

/political

58/ See Bhagwati and Srinivasan (31) for a discussion of such a regime of controls for India and Lewis (24) for pre-1971 Pakistan.

political access within the system in order to expand their area of activities. The system created more distortions in Pakistan, Sri Lanka and Bangladesh where a policy of protecting consumer goods and subsidizing the import of capital goods led to the growth of import dependence rather than its reduction. In India, however, the policy of using public enterprise to build up a capital and intermediate goods industry created the basis of a much more self-reliant development and at least created the basis for a self-generating growth of the industrial sector. Indeed the current growth of exports particularly of capital and intermediate goods owes to the policy of self-reliance built into the industrialization strategy of the 1950s and 1960s.[59/]

Fiscal and monetary policy were used in the service of private enterprise. In all countries a policy of tax incentives encouraged private industry. In Pakistan as a result the yield from direct taxation in 1968/69 amounted to only 3.9 per cent of total government revenues which in turn represented 8.8 per cent of GDP.[60/] A study of tax effect in fifty LDCs ranked Pakistan as fortieth in the ratio of direct taxes to GDP and also to total taxes collected. High concentrations of wealth were thus the logical consequence of a light tax burden.

In India corporate taxation makes up 7.7 per cent of value added from the non-agricultural sector. Similar tendencies were apparent in the other countries.

The regulation of the banking system provided capital at less than its opportunity cost to the private sector. In India between 1956 and 1966 Rs 8080 million was channelled by state financing institutions to the private sector.[61/] This lending was made available at around 7.8 to 8.5 per cent between 1960-1974 at a time when term lending in the private sector was averaging between 8-13 per cent. Indeed in the unorganized sector rates were very much higher.

Banking nationalization in fact led to a big increase in commercial lending to the private sector. Both term and commercial lending appear not only to have assisted the private sector but promoted the big business houses. Between 1956-1966 42 per cent of lending by the various state lending institutions went to the top 73 houses and 26.3 per cent went to the top 20 houses. This trend continued into the 1970s. An estimate for four

/leading

59/ Op. cit., Indian study (1).
60/ Op. cit., White (25)
61/ Op. cit., Chaudhuri (35).

leading term lending institutions up to March 1972 shows that 42 per cent went to the 73 largest business houses.[62/]

This tendency of entrepreneurial support was also central to the development of Pakistani capitalism. This trend was not discontinued even after the nationalization of the banks. The share of bank credit to the private sector in the pre-nationalization period (1965) and post-nationalization period (1977) remained constant at 86 per cent though in absolute terms lending to the private sector increased fivefold in this period.[63/] A similar pattern prevailed in Sri Lanka and Nepal. Only in Bangladesh after 1971 was there any visible reversal of this trend. In table 7 we compare lending by state financial institutions to the private sector before and after 1971. These figures are in current prices. In real terms lending fell off even more drastically. However, we have seen that after the change of regime in 1975 there was a visible move to step up lending to the private sector so that loans sanctioned by those institutions increased both absolutely and relatively for the private sector and by 1978 were above 50 per cent of all lending. However, this is still below the pre-liberation lending in real terms when in fact all lending was directed to the private sector.

In Pakistan there was also considerable equity support to the private sector through both the Pakistan Industrial Development Corporation (PIDC) and the specialized financial institutions. The PIDC was instrumental in providing both capital and services and infrastructure support in setting up industries in collaboration with the private sector. During the 1960s it was instrumental in inducting the Bengali bourgeoisie into the jute industry through equity support and services. Along with the specialized financial institutions studies have indicated that up to 90 per cent of capital costs originated from the public sector.[64/] Apart from direct participation in industry the state has invested massively in all these countries to provide power, communications, housing, sewerage and site development which have provided subsidized services to the private sector. In all these countries services are costed not to include the capital cost of these infrastructure investments which emerge as a state subsidy to the private sector. Since in most cases these have been financed from external assistance the private sector has made little contribution to directly or indirectly finance the services extended to it.

/Table 7.

62/ Ibid.
63/ Estimated from figures in Pakistan Economic Surveys (39)
64/ Op. cit., Sobhan and Ahmed (5).

Table 7. Lending by state financial institutions to the private sector in Bangladesh
(Taka in millions)

Year	PICIC/BSRS 1.	IDBP/BSB 2.	Total (1 + 2) 3.	3 as a percentage of total lending 4.
Up to 1969	543.87	643.44	1,187.31	100.0
1969/71	604.13	416.56	1,020.69	100.0
1972/73	0.3	6.51	6.81	10.7
1973/74	16.87	68.86	85.73	25.9
1974/75	43.7	44.04	87.74	21.7
1975/76	88.5	58.8	147.3	40.8
1976/77	287.3	179.4	466.7	92.4
1977/78				

Source: Tables 5.2 and 23.9 Bangladesh study (5). Bangladesh Economic Survey, 1977-1978.

/Finally

Finally if we review the market regime of the private sector in India, Nepal and Pakistan upto 1971 there was no attempt to really extend public enterprise with a view to compete with the private sector. In India whole areas were monopolised by public enterprise. In only 16 out of 54 products was the state sector in serious competition with the private sector.[65/] Even in these areas either the state was overwhelmingly the lead sector or a sellers market prevailed. This tendency characterized the market regime in Pakistan upto 1971 where public enterprises were rarely in competition with the private sector. Where there was a sellers market and import controls guaranteed adequate returns to the private sector. Even after 1971 in Pakistan and Bangladesh there has been little scope for direct competition due to a regime of scarcities. In Pakistan only 9 per cent of value added from industry comes from public enterprises which are in a competitive position with private enterprise.[66/] Though in some further areas conditions of duopoly and oligopoly characterize the market.

In Bangladesh again the nationalization being class oriented rather than by sectors whole areas became reserved for public enterprise such as the jute, textile and sugar industry, banking, insurance, rail, air, ocean shipping, utilities, the jute trade.[67/] However, in some areas of industry, trade and transport the private sector faced competition from public enterprise. In such areas as phatmaceuticals, soap, leather, edible oils, cigarettes, steel products, in inland water transport, in domestic retail trade competition existed. However, in the post-liberation period of scarcities this did not create any real problem on the demand side but applied to conflict over supply.

What competition there was related to access to credits, foreign exchange and raw materials in short supply. Here when the state was the source of supply the bias initially favoured public enterprise. But where the private sector was the source particularly for raw materials, controls imposed on the freedom of action of public enterprise gave an advantage to the private sector.[68/]

We may conclude this sector by observing that except in Bangladesh during the period 1972-1975, public enterprise has continued to service the expansion of the private sector. This was apparent even in Pakistan and Sri Lanka after 1970/71 when a change in policy sought to restrict the

/activities

65/ Op. cit. India study (5) for market regime of public enterprise.
66/ Op. cit. Pakistan study (2).
67/ Op. cit. Sobhan and Ahmed (5).
68/ Ibid. for Bangladesh.

activities of the private sector at the expense of public enterprise. This indicates that the nature of state power still tended to be directed towards the development of the bourgeoisie, though in Pakistan some segments of it were curbed after 1971. Only in Bangladesh between 1972-1975 was there any institutionalized assault on the bourgeoisie during a time when the petty bourgeoisie as a class was in the ascendant. Here, however, the petty bourgeois elements were active in using their access to the state sector to extract surplus from public enterprise where the opportunity presented itself.[69/] This tendency was manifest in India, Pakistan and Sri Lanka as well. However, here surplus extraction from public enterprise co-existed with institutional support to aid the private sector so that state policy was less at cross purposes than in Bangladesh. Only in Nepal was the perspective and policies defining relations between public and private enterprise unambiguously oriented towards promoting the interests of the ruling elite. Since in Bangladesh after 1975 the trend appeared to be to eliminate contradictions between the state and the private sector by stepping up the flow of state resources to the private sector, we may conclude that today public enterprise in south Asia appears to be substantially in harmony over its commitment to support the bourgeoisie in their respective countries.

X. PUBLIC ENTERPRISE AS AN INSTRUMENT OF GROWTH

The rather ambiguous perspective towards public enterprise in at least four out of five of the countries has inevitably had its impact on the growth potential of public enterprise. The conventional assumptions underlying the growth of public enterprise, see it as an instrument for both creating and retaining investible surpluses within the state sector to finance development. Public enterprise is here designed to serve as not just an engine of growth but also to direct it towards socially desirable ends. The private sector can also sustain rapid accumulation but society has less capacity to control the direction of this growth which remains conditioned by the play of market forces. How far public enterprise has been able to realize the assumptions underlying its expansion needs to be examined in the countries under study in terms of its capacity to generate surpluses, contribute to capital formation, savings and public revenues. Once we have examined the record we can seek to analyse the performance of public enterprise in terms of the constraints on its performance and the allocative regime which affects its capacity to generate surpluses. These

/factors

69/ Ibid. for role of petty bourgeoisie in Bangladesh.

factors will be reviewed in terms of the contending interests within the polity which we have argued determine the role of public enterprise in the economy.

XI. SURPLUS GENERATION BY PUBLIC ENTERPRISE

There is some difference of opinion in the literature on the appropriate indicators with which to measure the performance of public enterprise.[70/] Physical performance indexes which include output and capacity utilization measures conceal the efficiency with which resources have been used to realize these targets and can take no account of the market regime of the enterprise.

Private enterprise indicators such as return on equity conceal differences in the incidence of direct and indirect taxation, rates of depreciation and retained earnings.

In terms of economic indicators inter-country comparisons tend to be vitiated by varying policies towards the costing of capital, labour and inputs. Some studies have sought to get round these problems by using shadow prices.[71/] This, however raises serious conceptual problems even when one is restricting comparisons to a common industry. These become formidable when any attempt is made to compare performance for the entire public enterprise sector.

The scope of this study is too limited to warrant a major investment of effort to resolve these methodological difficulties.

Keeping in mind the limitations of both physical indexes of performance and the conventional accounting indexes such as profits we have opted to use the more comprehensive concept of "surplus". This term is used in varying contexts so that any attempt to measure it relates to the conceptual base used. Without entering into a discussion of the merits of various concepts we have simply opted to use surplus in as all-embracing a sense as is possible within the limits provided by conventional accounting data generated by public enterprise. To do this we have sought to define surplus as that part of the value of a product which directly re-enters the economy

/to

70/ See Jones (28) for a full discussion of the problem of performance indicators under public enterprise. Also a United Nations study reviews the issues (55).

71/ Jones (9) has made such an attempt in an ongoing study of PE fertilizer industries in Asia.

to finance further growth. This is estimated by the surplus in product value over and above payments for material inputs and employee compensation. This residual or surplus is made up of payments by public enterprise to the exchequer through direct and indirect taxes and through dividends or levies from its post-tax profits. This is added to that part of the surplus retained within the enterprise under the head of depreciation and retained earnings and/or reserves. The underlying assumption to this approach indicates that the surplus which goes to the government can be used to directly finance development by the government or to support particular expenditure programmes. The component retained within the enterprise can finance expansion within the enterprise. The depreciation fund is seen as part of the surplus even though it is meant in theory to replace worn out equipment. It is, however, argued here that the decision to replace depreciated capital stock in a public enterprise as opposed to a private enterprise is a social decision. The fund thus has a social opportunity cost which can only be decided in the context of public policy rather than within the entrepreneurial decision of the manager. The decision to replace worn out plant in a state sugar factory has to compete with the decision to set up a new textile mill, so that the depreciation fund must be included in any aggregative sense in the investment fund for the economy. The concept raises some other obvious conceptual difficulties. In principle part of production value paid to raw material producers or even as employee compensation can be saved and re-invested. Similarly part of retained surplus or payments to the government can be diverted to consumption. There are some problems over how to handle interest. In some sense it is a cost analogous to payment for material inputs. In another sense it is part of the surplus paid to government owned banks.

To the extent that profitability of an enterprise is supposed to represent the skill with which management combines materials with labour our concept of surplus is a manifestly superior measure of such a performance. It takes into account the varying incidence of indirect and direct taxes, depreciation rates policies for retaining earnings within an enterprise all of which may affect profits on the accounting books. However, for purposes of inter-country comparisons it makes no allowance for variations in relative prices which may affect the cost of materials or the value of output. A country with a favourable market situation may raise surplus by raising prices, whilst another may have a smaller surplus due to an adverse movement in the cost of its imported material inputs. Thus inter-

/country

country variations in the rate of the surplus in relation to either product value or capital provide little more than a perspective on the capacity and trend of surplus generation in the various countries.

The estimates provided in table 8 for the rate of surplus suffer from further problems of comparability owing to coverage of the data, the variations in the structure of public enterprise and in some cases the absence of a common data base. To introduce some element of uniformity in the coverage we have in the same table attempted to estimate the rate of surplus for public enterprise manufacturing. This again does not eliminate problems arising from differences in the structure of the respective manufacturing sectors, but comes closer to providing a comparable framework of reference.

The figures in table 8, for what they are worth, attempt to derive the share of the surplus from PE in terms of value added. It is apparent that public enterprise in all the countries is generating surpluses of a sizeable order for purposes of re-investment within the enterprise or as revenues to the exchequer. The contribution in India has been relatively stable with a slight rising trend particularly in the 1970s. Sri Lanka has shown a similar rising trend where in the last three years the rate had exceeded 60 per cent. Nepal's performance has been even more spectacular rising from 66 per cent to 176 per cent in 1973/74.

Unfortunately in Bangladesh we have comparable data for only 1973/74 when a surplus of 67 per cent was generated. For Pakistan there is no way of including estimates for indirect taxes for the entire PE sector but we do have estimates of the tax contribution from the manufacturing sector, which is likely to be the principal contributor to revenues. This indicates that the share of surplus implicit in value added is as high as 63 per cent in 1974/75. This figure would be higher if we could obtain estimates of indirect taxes from all other sectors in Pakistan.

A look at a more comparable set of figures relating simply to the manufacturing sector provides a more limited coverage and excludes India. In table 9 we present figures for the role of surplus in the manufacturing sector for four countries. The rate of surplus for manufacturing in Bangladesh may be seen to be somewhat lower than for the entire PE set. However, for Nepal, Sri Lanka and Pakistan the rate of surplus when measured against value added is above 100 per cent and in the case of Nepal rises to 372 per cent in 1973/74. This peculiar phenomenon reflects

/Table 8.

Table 8. Percentage share of surplus in value added of public enterprises

Country \ Year	1960/61-1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
Bangladesh					67.3	
India	33.6	38.8	39.8	40.2		
Nepal		66.2	80.0	86.6	176.0	
Pakistan				67.7		63.3
Sri Lanka		42.3	46.8	65.6	62.2	64.5

Sources: Bangladesh: computed from annexure to table 7 and table 17.2 Bangladesh study.
India: " " " " " " table G 1 appendix to chapter 3 India study.
Nepal: " " " " " " table V 1 Nepal study.
Pakistan: " " " " " " table 23 Pakistan study, part II.
Sri Lanka: " " " " " " table 4.1 Sri Lnaka study.

/Table 9.

Table 9. Data on the surplus of public enterprise manufacturing industries
(Rupees/Takas in millions)

Year	Bangladesh		Nepal		Pakistan		Sri Lanka	
	Surplus	Surplus as a percentage of value added	Surplus	Surplus as a percentage of value added	Surplus	Surplus as a percentage of value added	Surplus	Surplus as a percentage of value added
1970/71			31.15	177.6			237.3	102.6
1971/72			38.06	200.0			260.6	100.6
1972/73			43.40	180.0	671.26	121.5	379.7	126.6
1973/74	1,604.8	40.2	47.63	372.3			537.5	109.9
1974/75					1,883.82	137.6	762.5	91.4

Source: Bangladesh: computed from tables 7.2, 7.10, 7.21 Bangladesh study.
Nepal: computed from tables V-5 to V-7, appendix table C-6, V-3 Nepal study.
Pakistan: table 23, 39 Pakistan study, part II, table 17.2 Pakistan - Basic facts 1975/76.
Sri Lanka: tables 4A.2, 5A.2, 5A.3 Sri Lanka study.

/the

the fact that a big part of what is classified as material inputs in the product value is made up of indirect taxes. This serves to re-allocate the surplus from the public enterprises to the government ab initio, and leads to relatively lower estimates of value added in relation to production value. In Pakistan for instance in 1974/75 this value added to value of output had declined to 23 per cent compared to 42 per cent in 1960/61.

Our estimate of surplus may be contrasted with more conventional measures of performance such as profitability of public enterprise.

In India we see that in the two years under review profit on sales averaged 4 per cent. If we only look at profit making enterprises the return averages 5.7 per cent and 5.4 per cent.[72/]

In Pakistan a longer period of review shows that profit margins have declined from 27 per cent in 1960/61 to 8 per cent in 1972/73 with a modest increase to 11 per cent in 1974/75.[73/]

In Bangladesh on aggregate as between 1973 and 1977 figures limited only to the manufacturing sector show that in only one out of five years 1973-1974 did public enterprise in aggregate show a net profit of 3 per cent.[74/] However, if we exclude the chronically losing jute industry then profits were earned in all years except 1975/76 with a high of 10.5 per cent in 1973/74. The profile of loss was highly localized to jute, paper and board and tanneries, though fertilizers, forest products and textiles went into the red in some years.

If we look at the record in terms of return on capital employed, we see that in India the rate moved from 3.5 per cent in 1970/71 to 5.2 per cent in 1973/74.[75/] However, 19 per cent of enterprises in the sample in both years showed a negative return. Only 23 per cent in 1970/71 and 38 per cent in 1973/74 showed a return above 5 per cent.

In Pakistan returns were even lower averaging between 2-3 per cent in the period for which data is available.[76/]

In Bangladesh we have negative returns except for 1973/74.[77/] In Sri Lanka there are no estimates of return on capital employed in terms of profits. But an estimate of returns on the basis of revenue contributions to government gives a return of 6.6 per cent of total capital employed.[78/]

/From

72/ Op. cit. India study (1).
73/ Op. cit. Pakistan study (2).
74/ Op. cit. World Bank Report on current trends in Bangladesh (37).
75/ Op. cit. India study (1).
76/ Op. cit. Pakistan study (2).
77/ Op. cit. World Bank (37).
78/ Op. cit. Sri Lanka study (3).

From the above figures it is apparent that profits as shown on the balance sheets of public enterprises were substantially below the operational surplus generated in these enterprises. The differential measures the burden of indirect taxes, interest and depreciation charges carried by these enterprises since it is central to our analysis in the section on allocative regimes of public enterprise that the operating performance of PEs are constrained by policy decisions of the government which determine how PEs surpluses are distributed as between different interest groups, this distinction between surplus and profit remains important. Whilst there are important conceptual problems in correlating operational efficiency with the surplus, it is totally meaningless to use profitability of public enterprise as a proxy for managerial efficiency.

XII. UTILIZATION OF THE SURPLUS

The fact that public enterprise continued to generate surpluses even when it was making low or negative profits indicates that it retained a capacity to contribute to the development process. This may be directly estimated through its contribution to public revenues and internal financing of capital expansion and modernization. In table 10 we present contributions from public enterprise to the exchequer through direct and indirect taxes and dividends or budgetary contributions from its profits. This contribution may be measured in terms of its share of public revenues to indicate the level of contribution made by public enterprises to the exchequers.

The table shows that in India the absolute and relative contributions of public enterprises have risen from 1.6 per cent in 1960/61 to 10.9 per cent in 1972/73. This indicates the growth of public enterprise but still leaves the private sector far and away as the principal source of revenue. The poor performance of public enterprise in terms of profits is reflected in lower share of direct taxes compared to indirect taxes. Over and above its contribution in taxes PEs make a small dividend payment but for the year we have figures, 1973-1974, this comes to a miniscule Rs 130 million compared to a total tax contribution of Rs 7,240 million in 1972/73. Thus public enterprises main source of surplus contribution to the exchequer remains taxes rather than dividends.

In Bangladesh we only have figures for 1973/74. These indicate a much more paramount role for public enterprise. During this year PEs contributed 68 per cent of all taxes accruing to the government. The contribution through direct taxes was negligible coming to only Tk 8 million out of Tk 3,091 million, so that the main source of revenue was indirect taxes.

/Table 10.

Table 10. Contributions from public enterprises to the exchequer through direct and indirect taxes and dividends or budgetary contributions from its profits, current prices (rupees/takas in millions)

Country	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
Bangladesh[a/]				2,200 (60.1% of total government revenue with railway reserves netted)		
India[b/]	5,110	6,210	7,240 (10.9% of government's total tax revenues)			
Nepal[c/]	40.6	49.16	58.74	143.65	180.87 (17.9% of government's rational revenue)	
Pakistan[d/]			395.8	665.7	1,210.7	1,331.7 (8.9% of government's total tax revenues)
Sri Lanka[e/]	226.28	267.94	416.97	563.94	794.72 (17% of government's total current receipts)	

Sources: Bangladesh: pages 17-40, 17-41, Table 17.21 Bangladesh study (5) and Table 5.2 World Bank's Report December 15, 1978 (38).
India: Table T1 Appendix to chapter 6. India study (1).
Nepal: Tables C1, C3, Nepal study (4).
Pakistan: Tables 17.2, 17.4 Pakistan, Basic facts 1975/76 (40).
Sri Lanka: Tables 5.8A, 5.8B Sri Lanka study (3).

Notes: a/ Tax contributions by public enterprises + profits from public manufacturing units + contribution by banks.
b/ Direct and indirect taxes of non-departmental enterprises.
c/ 41 public enterprises' contribution to national revenue.
d/ Taxes and duties paid by BIM industries.
e/ Direct and indirect contributions of non-departmental public enterprises.

/If

If we include non-tax revenues, which cover contributions to the exchequer from PE which came to Tk 396 million, then the share of PEs to total government revenue of Tk 3,939 million comes to 60 per cent. This figure may be set against the share of PEs value added to GDP in Bangladesh which comes to only 8.2 per cent. This disproportionate contribution to public revenues by public enterprise again reflects its overwhelming importance in the monetised sector of the economy and the peculiar incidence of taxation which leaves the non-modernized sector virtually untouched. Even if we look only at manufacture where PEs share comes to 56 per cent and trade where it is 9.8 per cent, which are the main sources of tax revenue, the share of PE is still disproportionate but somewhat less so than for the total GDP. It would appear that given the prevailing structure of the economy and the strategic role of public enterprise within the revenue generating sector it has continued to play an important role in financing the government. To thus look at PEs profitability and from this to its direct contribution to the exchequer conceals the important revenue contribution of public enterprise resource mobilization in Bangladesh.

In Sri Lanka we see that contribution of PEs to revenue comes to 17 per cent of the government's current receipts in 1974. This figure must be seen in the context of a sharp absolute and relative rise in the contribution of public enterprises in Sri Lanka. In 1967 contributions were Rs 226 million compared to Rs 794 million in 1974. As between 1970-1974 revenues grew at the rate of 37 per cent per annum. This growth was characterized by a move towards raising the contribution of direct taxes which for the first time in 1974 contributed the major share of revenues.

In the case of Pakistan we have a rather narrower perspective of the contributions of public enterprise to national revenues. This covers the revenues generated by the enterprises under the Bureau of Industrial Management and thus relate to PEs in the manufacturing sector. If we relate direct and indirect taxes contributed by these enterprises to total tax receipts going into the government exchequer this amounts to a range of 5.4 per cent in 1972/73 to a high of 9.45 per cent in 1974/75. This slightly understates the contribution as a number of manufacturing enterprises are managed by agencies other than BIM, whilst outside of manufacturing some of the other PEs as in trade contribute to taxes; the manufacturing sector however remains the most important source of tax revenue. Since in Pakistan PEs have made direct contributions to the exchequer through their surpluses, so that in over-all terms the share of PEs is somewhat higher.

/In

In Nepal PE contributions to the Treasury rose from Rs 40.6 million in 1970/71 to Rs 180.9 million largely due to increase in collections of indirect taxes. This in the last year contributed 91 per cent of revenues compared to about 6.5 per cent from direct taxes, dividends and royalties. This contribution in 1974/75 came to 18 per cent of total national revenue. Since coverage is less than the total of all PEs the figure somewhat understates the PE contribution. Within the PE sector upto 1972/73 the manufacturing sector contributed two-thirds of revenues. However, after the take over of oil and POL imports by the government in 1973/74 both taxes and profits from this trade sharply raised the contribution and share of the trading sector which contributed 58 per cent of revenues in 1974/75 compared to 37.5 per cent for manufactures.[79/] Here again the private sector remains, along with other sources of revenue the main financier of the government.

To sum up. With the exception of Bangladesh in the countries of south Asia the PE contribution to the exchequer ranged from 10-20 per cent which roughly approximates to its share of value added in GDP. Only in Bangladesh has public enterprise emerged as a major financier of the government in spite of its modest share of total economic activity. It would appear that the economic structure of Bangladesh is of some uniqueness in south Asia to the extent that public enterprise emerges as the main source for domestic revenue. However, Bangladesh remains heavily dependent on external resource flows for its development so that in practise the contribution to revenues from the PEs do little more than finance current expenditures of the government.[80/]

Public enterprises contribution to revenues is limited to its role in supporting government enterprise. However in all countries in south Asia where a sizeable private sector remains a large part of the growth impulses in the economy originate from the savings and investment decisions in the private sector. It may, therefore, be useful to briefly review the contribution by public enterprise to the growth of the economy in terms of their capacity to finance their own investment and their contribution to the overall level of investment in the economy. This will also give another perspective to the extent to which public enterprise has supplanted private enterprise as a source of growth.

In table 11 we present the share of public enterprise in total fixed capital formation within the various economies. The extent of coverage varies for each country so that over time the years in common are limited. Here again there are wide variations in the role of PE.

/Table 11.

79/ Op. cit. Nepal study (4).
80/ See Sobhan and Ahmed (5) for measure of external dependency.

Table 11.[a/] Public enterprises' share of nations, gross fixed capital formation (in per cent)

	1960/61-1964/65	1965/66-1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
Bangladesh [b/]						81.5		
India	36.3	32.4	27.8	28.3	27.5	30.3		
Nepal				14.6	6.1	37.9		
Pakistan			6.7	7.3	19.8	9.7	18.0	9.8
Sri Lanka							16.9	17.3

Source: Bangladesh: Table 17.16 Bangladesh study.
India: Table NGPF.1, appendix to chapter 4. India study.
Nepal: Page 57 Nepal study.
Pakistan: Table 28 Pakistan study, Part II.
Sri Lanka: page 5.16, Sri Lanka study.

Note: a/ The figures in this table apply to the entire public enterprise sector. This may be contrasted with figures in Table 3 where we obtain wider coverage over time by using figures for manufacturing only in Bangladesh and Pakistan.

b/ The figures for Bangladesh is for the period 1972-75 and is the share of public sector investment in total investment.

/In

In the years for which data is available for Bangladesh public enterprise is overwhelmingly the most important source of investment. Total public sector investment in Bangladesh between 1972-1975 accounted for 81.5 per cent of total investment. Of the total roughly 40 per cent or half came from public enterprise and the remainder from other public sector agencies.[81] This breakdown both in terms of the overall plan allocation and the share of PEs within it, roughly approximates the First Five Year Plan investment strategy which committed 85 per cent of investment to the public sector.

We have another set of figures for the period 1973/74 to 1976/77 for investment in the manufacturing sector which has been computed in constant prices. This indicates that in these four years the share of public sector investment in industry amounted to 92 per cent.[82] On a year to year basis there is some slight acceleration in the share of private sector investment rising to 18 per cent in 1975/76, but in real terms the share of private investment still remains low.

The figures for Pakistan in table 11 for the period 1969/70 to 1974/75 indicate that in terms of over-all gross fixed capital formation (GFCF) there is some acceleration in the share of PE in 1971/72 and 1973/74 but over-all the share of GFCF remains below 20 per cent. This may, however, be contrasted with sectoral figures for manufactures for which another source of data provides more updated figures and this time in constant prices.[83] These show that the share of PE investment to total investment in industry has risen from 11 per cent in 1969/70 to 64 per cent in 1975/76. This acceleration in real terms both absolutely and relatively has been most apparent in the post-nationalization period of four years from 1972/73, when PEs share rose above 20 per cent for the first time in 1972/73. In contrast the private investment in industry has not only declined relatively but absolutely so that investment in 1975/76 was just 50 per cent of what it was in 1969/70. It would thus appear that as we have shown earlier, private enterprise still remains dominant in the national economy but it has at least in the industrial sector cut back on its earlier levels of investment.

/In

81/ Ibid.
82/ See table 3 for manufacturing sector GFCF in Bangladesh.
83/

In Sri Lanka figures for two years indicate that PEs share in GFCF remains below 20 per cent. However, here again in the manufacturing sector the share of PE investment remains relatively higher.

In contrast, in Nepal, where the projected role of PE is seen as more modest the share of PEs in GFCF has been lower in two years but rose sharply to 38 per cent in 1972/73. This seems to have been an exceptional year since in real terms in the next year investment fell to 47 per cent of the previous year.

In India the share of PE in GFCF has hovered around 30 per cent. However, there appears a clear dichotomy between the period 1960-1967 where the share of PE fluctuated between 33 to 37 per cent, and 1968-1973 when it fluctuated between 27 to 30 per cent. Indeed in real terms investment in PEs declined absolutely between 1968 to 1972 picking up again only in 1972/73. It would again appear here that whilst PEs share of GFCF is higher than in all other countries except Bangladesh it has been ceding ground to the private sector in the recent period.

XIII. FINANCING INVESTMENT

In table 12 we present estimates of the share of savings generated by PE in relation to their own GFCF. Again comparability of figures is not very meaningful because of considerable variation in the quality of data used in each country which in turn has led to methodological differences between different countries computations. The figures seek to relate savings generated by public enterprise to their capital expansion. The figures can do no more then indicate whether PEs generated enough surplus to sustain their own growth. In actual practice there is no causal nexus in any one year between what are defined as savings of PEs and their GFCF. Investment in any one year is really the result of expenditure decisions taken in years previous to the year in which it materializes. Its actual financing may come in all or part from domestic and foreign loans and even fresh equity investments. In turn savings generated by PEs in that year may not go into investment within the PE sector but may be retained or appropriated in the general revenues of the government.

The table shows that in Sri Lanka and Pakistan on aggregate PEs were not only supporting their own growth but leaving something over for growth of the rest of the economy. In contrast in Nepal, except for one year and India and Bangladesh throughout, PEs remained net borrowers from the rest of the economy to sustain their own expansion.

/Table 12.

Table 12. Self-financing ratios of public enterprises
(gross savings/gross fixed capital formation x 100)

Years	1960/61-1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
Country							
Bangladesh						47.70	42.30
India	25.58	33.74	31.05	30.98	33.06		
Nepal			36.95	103.45	26.72	61.22	
Pakistan		141.90	123.90	53.40	136.70	88.00	107.80
Sri Lanka			49.50	114.30	72.60	130.40	149.60

Sources:
Bangladesh: Tables 17.10, 17.15, Bangladesh Study (5).
India: Tables SI.2.1 Appendix to Chapter 4, India Study (1).
Nepal: Pages 55, 57, Nepal Study (4).
Pakistan: Tables 27, 28, Pakistan Study, Part II (2).
Sri Lanka: Pages 5.10, 5.19, Sri Lanka Study (3).

/If,

If, however, we revert to surplus generation as defined in table 8 the capacity of self-financing by PEs rises appreciably for all countries. Using a conventional measure of savings PE in Bangladesh could finance about 45 per cent of its investment the rest coming largely from foreign aid. However, if we recompute Bangladesh's contribution in terms of its surplus we find that in 1973/74 where we have figures, public sector development expenditure was Tk 1693 million whilst PEs surplus came to Tk 2921 million. If we look at figures for realized investment as opposed to development expenditure which does consist entirely of investment, then between 1972-1975 total public investment came to Tk 4000 million of which PEs accounted for Tk 1343 million. One year's surplus from PE was enough to finance its own investment and 73 per cent of Government's realized investment over three years. This recomputation merely indicates that low contributions to development finance by PEs remains a measure of how state policy re-apportions the surplus of PE under taxes and other heads.

By using a similar measure of the surplus for other countries for which we have data we see that in India in 1972/73 PEs financed 64 per cent of their GFCF from their internal surplus generation compared to 33 per cent from the conventional measure of savings. In Sri Lanka in 1973/74 the surplus generated was three times the GFCF in PE in that year. If we could have computed Pakistan's surplus we may have got an even higher ratio of self-financing than we had for their estimates of gross savings. We may conclude this section by observing that PEs retain the capability to generate surpluses even when their books show figures to the contrary. On the basis of their present level of performance PEs remain sources of growth both internal and external to themselves. State policy, however, continues to determine the distribution of the surplus and this policy is in turn constrained by the interplay of social forces.

XIV. CONSTRAINTS ON THE PERFORMANCE OF PUBLIC ENTERPRISE

The above discussion has indicated that PEs have remained a source of growth in the economy. However, this re-definition of the concept of surplus should not divert attention from the hard fact that in all these countries PEs are in fact capable of making more effective use of available capital, intermediate

/and

and human resources by producing a greater volume of goods and services. Where available, estimates of capacity utilization show considerable scope for improvement. In Bangladesh in 1976/77 capacity utilization in PE industry was 61 per cent.[84/] In 1972/73 the figure was 49 per cent so there is obvious scope for improvement. A comparison with 1969/70, when utilization was 70 per cent may not be entirely relevant because of changes in the external and institutional environment.

Other sets of performance indicators in Bangladesh comparing pre-1969/70 figures with current performance data show deterioration in performance for such indicators as labour productivity.[85/] Other sets of measures in terms of various financial ratios from data in India, shows that private industry tends to perform better.[86/] Now it is argued that most of these comparisons are not only invalid but invidious and can be explained in terms of the special circumstances governing "performance" in a particular sector. It, however, does again indicate that in all countries PEs have operated well below their potential and there is a large body of literature in each country, both published and in unpublished official memoranda identifying scope for such improvement. It is therefore worth briefly looking at some of the constraints which afflict performance in these countries and to see how far these again relate to contradictions within the polity. Our analytical framework does not see performance as depending merely on managerial performance as some sort of exogenous variable but argues that managers perform only as well as state policy and the forces which mould this policy let them perform.

Within the limits of our paper we seek to identify constraints on the operational autonomy of enterprises as a critical determinant of performance. To the extent that both policy and societal variables impinge on this autonomy this particular focus of discussion will cover a rather wider canvas than is immediately apparent from the nature of the constraint.

/It

84/ See World Bank report (38) for capacity utilization in manufacturing sector in Bangladesh.

85/ Ibid.

86/ Op.cit. India study (1).

It is found not just from a review of the south Asian experience but from a much wider perspective that public enterprise management remains afflicted by a variety of constraints on their operational autonomy.[37/] These relate to their freedom to operate in the factor markets for capital, manpower and materials. This freedom is limited by the structure of authority and accountability exogenously imposed on managers and at a wider level by societal interventions in the factor markets. From this it should not be assumed that private entrepreneurs operate completely free from such constraints. But as it will become apparent public enterprise by its very publicness remains more exposed to such interventions.

XV. CONSTRAINTS IN THE CAPITAL MARKET

A review of the experience of all the five countries shows that PEs face a variety of limitations in their capacity to intervene in the capital market.[38/] The initial decision to set up a public enterprise is itself a socio-political decision rather than a market or commercial decision. Resources made available to such a project have a social opportunity cost where public resources are in short supply and in demand by a variety of agencies within the government. In all the five countries the initial investment decision to set up a public enterprise is taken within the framework of the development budgeting process. It thus has to go through an evaluation process where not only does it have to demonstrate its intrinsic viability but it has to establish its worth in relation to other claimants to resources. The project evaluation exercise may be subject to wide variations in quality with projects being given a post-facto endorsement once the political mobilization behind it has been successful. The more critical issue relates to the actual allocation of resources both from the aid and domestic development budget. The final configuration of PE projects thus represents a peculiar amalgam of donor preferred, politically potent and commercially viable projects, which may not necessarily overlap in their provenance.

Once projects have been conceived in all the countries the cost of the project is itself exogenous to the control of the project manager. In virtually every case in Bangladesh, Pakistan, Sri Lanka and Nepal and

/in

37/ Op.cit. UN studies (55 and 56) and paper by Rahman on public enterprise in Asia (8).

38/ The south Asian country studies (1-5) provide the main source for discussion the capital markets of PEs.

in most cases in India, PE investments have been aid financed. This has immediately tied the project as to design, technology and costs which are taken as given for the PE manager. Even in projects financed by unilateral sources where projects can be tendered, institutionally in-built constraints set by the donors disbursement mechanism have to operate.

This freedom is, however, not limited to the dependency on aid donors for project finance. Internally the capital cost of the project is constrained in all countries by decisions both over location and infrastructure costs. Locational decisions designed to serve governmental policy to promote regional equity in development imposes additional costs on PEs locating in less developed regions. Such areas tend to be characterized by underdeveloped infrastructure facilities. This tends to require additional investment in land development, communications and frequently even installation of power generating facilities.

Most PEs and particularly those locating in less developed areas are expected to make investments in both management and worker's housing as a pre-condition for making the project viable. Entire townships are built around such projects. One such estimate for PEs in India indicates that in 1973/74 Rs 3330 million was spent by manufacturing PEs as investment in townships and social amenities for employees.[89/] This came to 8.3 per cent of gross fixed investment for the year. This may be expected since another estimate indicates that some 55 per cent of gross fixed investment of PEs was tied up in what are classified as the backward areas of India. Whilst such specific quantitative estimates are not available for other countries a similar pattern of using PEs to promote less developed areas characterises the other countries.[90/] Though some have been less successful in this area than others.

These exogenously imposed constraints on the capital costs of PEs are compounded by the policy determining the capital structure PEs have to carry. In real terms it should not make any difference if capital was

/provided

89/ Op.cit. India study (1).

90/ See First Five Year Plan of Bangladesh for regional dispersal policy of the Government of Bangladesh for industry.

provided as loan or equity to PEs. Capital, whatever its origins has an opportunity cost to the economy and its use should generate a surplus to the economy whether directly or indirectly. Such macro-economic perspectives are, however, not always taken by governments in these countries when defining the capital structures of PE. A high degree of eclecticism informs the practices of all five countries. Projects range from 100 per cent loan finance to 100 per cent equity with variations in the mix between these two extremes. This means that in an accounting sense projects with a high loan component carry higher capital service charges which have to be charged to their costs. In contrast an enterprise with a high equity share does not include the cost of capital in its cost structure but makes a return on it to the government from its surplus over cost. In practice it appears therefore that projects with a higher ratio of loan capital become discriminatory victims of government eclectism on policy making. To the extent that their operating performance is evaluated on their returns on capital such projects appear to do less well than they might have with a more optimum capital structure.91/

Capital costs and even technology largely appearing as exogenous policy determined costs for PE, the very mechanism of resource mobilization emerges as a constraint on PEs in all the countries. As between the decision to initiate a project and the actual realization of investment funds the public entrepreneur has to move through various layers of the administration. In all the countries except India capital investment involves demands on scarce foreign exchange. Even in India the dimensions and complexity of most PEs involve a foreign component for which government has to provide foreign exchange. All five countries operate regimes with strictly regulated foreign exchange controls. Whilst some countries such as Pakistan, India in the 1970s and Sri Lanka over the last year have liberalized exchange controls on current account expenditures on capital investment remain rigidly controlled for all five countries.

These controls imply that at least for Pakistan, Bangladesh, Sri Lanka and Nepal and frequently for India capital investment in PEs is closely tied to the availability of external resource inflows and the protracted process of aid negotiation and disbursement. In all countries (except Sri Lanka and

/Bangladesh

91/ Problems of capital structure for public enterprises are discussed in a United Nations study on financing of PEs and in the Bangladesh study (5).

Bangladesh[92] till last year) the Ministry of Finance becomes the control agencies for capital expenditures through its control over aid programming. Only in Bangladesh and Sri Lanka was this vested in the Planning Ministry. This meant that project evaluation and resource budgeting were in principle co-ordinated in one Ministry. In all other countries a duality of control exists as between the mechanism for evaluating and approving a project and actually programming external resources for the execution of the project.

In Bangladesh the Ministry of Planning evaluates all PE projects. Their approval, however, rests in a Cabinet sub-committee for all projects above Tk 1 million. In India all capital expenditures above Rs 10 million have to be approved by a Public Expenditure Board chaired by a Secretary from the Ministry of Finance. In Pakistan, all projects above Rs 5 million go before the sponsoring ministry or an inter-ministerial committee at the provincial government level. Projects between Rs 5-10 million go before an inter-ministerial committee chaired by Secretary, Planning. Above Rs 10 million it goes for approval to a cabinet sub-committee. In Nepal all capital expenditures by PEs need to be approved by the Ministry of Finance. In Sri Lanka the Planning Ministry retains powers of approval. In all countries a further layer between the PEs and the inter-ministerial mechanism is created by the parent ministry. Though in some cases as in steel in India and jute and oil and gas in Bangladesh, the PE entrepreneurial function and the Ministry have been subsumed into a single corporate personality.[93]

Escape valves have been provided in all countries for smaller projects at least for the approval phase. However, for provision of funds the specialized financial institutions provide a less cumbersome source of capital. In all countries these state institutions are largely designed to serve the private sector. However, in Bangladesh manufacturing PEs have had equal access to these funds and between 1972-1975 claimed around 90 per cent of loans sanctioned by these agencies.[94] A similar facility is available to PEs in Pakistan. However, to the extent that external resources of these specialized institutions are themselves provided through the aid budget, the relevant aid agencies remain involved in the aid programming exercise albeit at second hand.

/Constraints

92/ Upto 1978, External Resources Division (ERD) in the Ministry of Planning handled aid negotiations. In 1978, ERD was moved to the Ministry of Finance. Our discussion of aid programming in Bangladesh predates this change.

93/ Here the chief executive of the corporation and the Secretary to the Ministry are one and the same. This practice was discontinued in Bangladesh after 1975.

94/ See table 7.

Constraints on access to resources are also present in current account expenditures, though they are less severe. In all five countries current revenues and commercial borrowing provide working capital. In all five countries state commercial banking institutions are the main sources of working capital. PEs in the manufacturing and trading sector have access to the commercial banks within the credit limits negotiated with the banks. However, where problems arise relating to default or need to exceed cash ceilings intervention by the Finance Ministry can bail out particular PEs.[95/] The main problem thus really relates to access to foreign exchange to finance imports on current account to keep the enterprise operational. In every country in this study the foreign exchange constraint has operated for most of the time in limiting capacity utilization through shortage of raw materials and spare parts to keep plants operational. The constraint has militated against any scientific inventory planning since resources for imports are not only made available on a six to twelve monthly basis but there is no assurance that necessary amounts will be available. Only in recent years has an improvement in the exchange position enabled some of the countries to operate a more liberalized import policy.

The consequence of this chronic constraint on both capital and current account of most enterprises has we have seen foisted ready-made projects with capital structure, product mix, technology and capital costs as given. Most PE managers therefore have to work with projects where an element of the current cost component is already outside their control. In all countries managers have to contend with the problem that they are not even free to modify the project by further investments, replace worn out parts, keep the plant serviceable without going through the paraphenalia of controls imposed on PEs.

XVI. PROCUREMENT CONSTRAINTS[96/]

These controls on capital are further compounded by controls on freedom of action once resources are actually made available. In all countries the system of public tender for procurements above a certain value operate, though all operate their own exceptions to the rule. In these countries the actual

/approval

95/ This has been fully discussed for Bangladesh by Sobhan and Ahmed (5).
96/ PE procurement practices are derived from the country studies (1-5).

approval of the tender itself involves various tiers of control. For instance in Bangladesh upto 1975 all procurements by tender above Tk 1 million had to be submitted before a cabinet sub-committee for final approval.97/ In the other countries approval was less concentrated but could go all the way up to the Minister in the parent Ministry. Usually there was a degree of progression from the enterprise manager up to the Corporation, then to the Setretary of the Ministry and finally the Minister. In Pakistan in some cases committees at each stage were set up to scrutinize and decide on tenders.98/ In Nepal the parent ministry approves all expenditure decisions. In India and Sri Lanka, within certain limits enterprises are free to make all purchases.

The nature of the tender system and the centralization of approval decisions on expenditure is a special feature of public enterprise in a bourgeois system. In all these countries private intermediaries as well as tradesmen co-exist with public enterprise. For all purchases there are private suppliers in potential competition to directly meet the need from within the country or as intermediaries for a foreign supplier. In these circumstances there is a built-in presumption that underpaid public enterprise employees will accept material inducements to favour particular private suppliers. The appropriation of the approval decision by committees, ministries, ministers and even the cabinet thus removes scope for pressure or corruption on remote public managers.

The assumption that upper echelon decision makers are less prone to material inducement is rarely borne out by the facts in any of these countries. However, even where direct inducements are not involved control over public expenditure decisions remains a powerful source of patronage and hence an important political resource. The tendency for such decisions to gravitate towards the sources of political power within the system appears to be inherent in the nature of the bourgeois system. It is significant that in India, post-1971 Pakistan, Bangladesh between 1972-1975 and Sri Lanka, ministerial/political control over PE procurement decisions played an important role in rewarding relations, party workers, constituents and class allies. In contrast in pre-1971 Pakistan, post-1975 Bangladesh and in Nepal the bureaucracy has played a critical role in decision making at the ministerial level. In both cases, however, the nature of the procurement system has been governed by the role and interests of the bourgeoisie in these countries using their access to the decision makers to monopolize supply to the public sector.

/The

97/ This provision has been modified in recent years in Bangladesh but in practice still remains highly centralized.

98/ This was the practice in the Ministry of Production which controlled nationalized industries.

The rigidities imposed on the procurement regime of PEs whether by resource constraints or by nature of the procurement system is not without cost to public enterprise. Where a manager enjoys freedom of expenditure and decision he can always calculate the opportunity cost of a purchase in terms of lost output and revenues to the enterprise. If the lack of a spare part could shut down the plant he can calculate it to be worth his while to fly to Frankfurt buy the part and airfreight it back to the factory within 48 hours so that there is no closure time. Under the regime constricting PE procurement in these countries such initiatives, with rare exceptions, can hardly be found, except perhaps in India where domestic sources of supply permit greater freedom of action. The tendency for undercapacity operation rising from closures or inoperative equipment depend as much on the nature of the procurement system imposed on managers as it does on their managerial skills. The temptation to overcompensate by tying up resources in inventory appears a logical and costly reaction to the situation.

The constraints on procurement autonomy are compounded by the market regime imposed on PEs. This relates to distributional and pricing controls designed to allocate the surplus generated by public enterprises. We will discuss this more fully in our concluding section, they are, however, part of the system of controls on the market regime of PEs designed to vest patronage resources in the hands of the socially dominant groups within the system.

XVII. CONSTRAINTS ON THE LABOUR MARKET[99/]

In the same way that the market regime of PEs was controlled a similar constraint afflicts their employment practices. Within a profit maximizing management framework it should be possible to hire managerial and technical skills at the going market wage and to import it where this is unavailable in the local market. On the wage labour market direct bargaining with the workers leaves managers free to determine how high they can afford to go by relating it to the cost of plant shut down. However, in this particular market even in a market economy social factors tend to impinge more strongly than on the managerial market.

/In

99/ Op. cit. country studies (1-5) for main source of information on labour market constraints.

In the countries under study we may attempt to review the operation of controls in terms of hiring practices and compensation for management and labour in public enterprise.

At the management level the critical appointment relates to the chief executives and directors/board members of PEs. It is significant that in all these countries chief executives have been appointed at ministerial and even Prime Minister's level. In Bangladesh and Pakistan after 1971 all appointments of chief executives in the public enterprises at corporation level either originated from or requested the approval of the Prime Minister. In some cases even directors were placed or approved at this level. Though here the chairman designate or secretary of the ministry may place a name before the concerned minister for approval.

In Nepal the selection of the chief executive is done by the ministry but approval is derived from the cabinet. In the case of limited companies the minister acting as the principal shareholder determines the appointment. In Sri Lanka the concerned minister is the key figure in appointment of the CEs and board members. In India there has been some attempt to institutionalize the appointment system. Appointments of chief executives are made by the minister with the concurrence of a cabinet sub-committee, whilst members of the board are appointed with the concurrence of the chief executive. In practice it would appear that the Prime Minister tends to be involved in some if not all appointments of CEs whilst the minister remains critical in appointment of board members.

In all the countries it would thus appear that key appointments in the public sector have remained critical political decisions. In Pakistan before 1971 and in Nepal where secretaries wielded considerable power they played a key role in appointments. Though in both countries the President and King respectively were perhaps decisive in some of the major appointments. The political source of power in appointments also remained the main sanction on the appointees. In all cases except India appointments were made at the discretion of the political authorities so that chief executives and board members were liable and in fact frequently experienced summary removal from their posts. Only in India did the removal of a CE require the formal approval of the board. However, since the board has a strong representation of nominated officials there is no indication that it would seek to challenge the minister's decision to rid himself of an unacceptable CE.

Below the board level CEs tend to have more freedom of employment. However, this is not an unqualified prerogative. In Bangladesh all corporations

/had

had to not only have their staffing pattern approved by the Establishment Ministry but its appointees had to be approved by the Public Service Commission. In India certain general guidelines laid down by the Bureau of Public Enterprise control the staffing pattern and recruitment of PEs. In Pakistan different public corporations follow their own recruiting practice with full powers being vested in the board for second tier management, whilst below this enterprise managers have power excercised with the approval of the corporation CEs. Ministerial intervention was, however, quite frequent even in lower appointments. In Sri Lanka ministries devise their own staffing practices but again ministerial intervention in the appointment of even junior executives was viewed as standard practice. In Nepal upto 1975 the Public Service Commission recruited all PE personnel. However, after a constitutional amendment in 1975 this power was ceded to individual PEs who were given powers of recruitment and promotion. Though this tended to constrain lateral mobility within the public sector due to the absence of any co-ordinating agency presiding over the personnel policies of PEs.

Again only in India has a special cadre of PE employees been created. Civil servants have been given the option to opt for this cadre which will provide the basis for inter-sectoral movements. In Bangladesh an attempt was made to start a nationalized industries cadre when 200 ex-freedom fighters were specially trained by personnel from socialist countries in public sector management. This initiative, however, generated tensions between the parent ministry laying claim to control the cadre and the corporation management. Eventually the cadre was disbanded and its members distributed amongst the various corporations.

The highly politicized ambience for recruitment into management in PEs has generated a popular view that ipso facto management in PEs are unqualified being composed of patronage appointees. A review of the actual experience in all the countries does not bear this out. In Pakistan and Bangladesh where criticism about politicization of management was most manifest the record at least at the level of chief executive is quite to the contrary. In Pakistan after 1971 where there was a large influx of top management from the private sector and professions eight out of ten holding corporations in the industrial sector were headed by professionals. Some of these had been leading entrepreneurs in the private sector or chief executives in MNC projects in Pakistan. As of 30 June 1975 out of 172 public

/enterprises

enterprises in Pakistan four-fifths were headed by professionals, whilst within the manufacturing sector controlled by the Bureau of Industrial Management 50 out of 56 enterprises had professionals as their CEs. This pattern marked a conspicuous change from the earlier practice of using civil servants and military personnel in top management positions in the public sector.

In Bangladesh[100/] out of 76 appointments of chief executives between 1 January 1972-15 August 1975 45 had a private sector or professional background, 28 were generalist civil servants and four had a military background. Of these 32 generalists only nine were appointed initially to the position of chief executive. Thus out of the 44 public corporations from which the list is compiled in the initial post-liberation phase 35 appointees had a professional management background. All of these were at the top of their professions or had enjoyed managerial responsibility in the private or public sector. Only two out of the 75 appointments made in these three years could be classified as explicitly political. Of these one performed very successfully as chairman of the trading corporation.

In both Pakistan and Bangladesh the real conflict in appointments was not between qualified professionals and political patronage hacks but between professionals and generalist civil servants. Upto 1971 when the latter class had dominated the polity they had also monopolized key positions in the public sector. In the post 1971 phase when politicians were ascendant they played a crucial role in inducting qualified professionals into responsible positions in the public sector. This generated much resistance amongst the generalists who initiated a gradual reversal of this tide. With the recent change in the power balance in both countries generalists appear again to have expanded their control over the public sector.

In Sri Lanka and Nepal, however, the tendency for civil servants to dominate top management positions remains even where political forces have been ascendant as in Sri Lanka. In contrast in India the longer history of public enterprises has led to the accumulation of an adequate pool of experienced and qualified professional managers in public enterprise, which on merit can compare with management anywhere in the world. This has been supplemented by lateral recruitments at the top from the private sector as exemplified in the contract appointment of the Indian Managing Director of Unilever (India) as Chairman of the State Trading Corporation.

It is really at the lower echelons of management mainly at the enterprise level that there have been conspicuous deficiencies. This is

/particularly

100/ Op. cit. Sobhan and Ahmed (5).

particularly apparent in Bangladesh, and Sri Lanka where the public sector was large in relation to the over-all managerial resources of the country and Nepal where such resources were virtually non-existent. In India and even Pakistan the secondary management pool was quite large, so that this constraint was less apparent. However, in Pakistan there was a progressive erosion of this resource as the pull of the OPEC countries continues to drain underpaid professionals away to vastly more lucrative employment. This tendency is now having a critical impact on the even scarcer management resources of Bangladesh. Again only in India is there a big enough pool to handle both the claims of foreign employment and the competing private sector.

The problem is more critical at the lower levels where market incentives are much more operative for professionals with a high local and international marketability. This class does not even enjoy the social prestige and power which may motivate top management in the public sector. Living in an environment where real earnings are falling, prestige is low, the public sector is under general political attack and there is little reward or even appreciation for efficient performance, attrition at this level appears particularly high. The end result tends to be the placement of inadequately as opposed to inappropriately qualified personnel in such management positions. Specific studies of this phenomenon in Bangladesh[101/] clearly bring out the tendency for people within an enterprise who have been upgraded to fill managerial vacuums created by the exodus of Pakistani managerial personnel at liberation or departure of skilled personnel after liberation. For Nepal data is less focused but a limited study of top management and supervisory personnel brings out the fact that 55 per cent of personnel employed in such positions had less than ten years of service experience.[102/]

It would appear that in all these five countries the environment provided by a bourgeois system creates serious problems in motivating public enterprise managers. In all countries except India this motivation crisis has led to absolute shortages of qualified personnel leading to deterioration in the quality of management. In societies where bourgeois values are dominant it is difficult to pay skilled personnel a sub-market wage for any length of time without facing the hazard of loss of incentive, integrity and eventually services. It is common to all countries that at the enterprise level and even at top executive level public enterprise continues to under-reward its personnel. Pakistan was perhaps the one exception to this trend

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101/ Ibid.
102/ Op. cit. Nepal study (4).

at least in the manufacturing sector of public enterprise where in order to attract top level managers from the private sector they offered wages and facilities which were comparable to those enjoyed at least by executives in the private sector. However, many of these executives came from the top 43 business houses where their private income was well above that of an executive. Their unearned income from their private wealth was high enough to make their involvement in public enterprise a social service. This was rarely the case in any other country where the dimension of sacrifice, as in Bangladesh, soon gave way under pressure of inflation to a crisis of subsistence.

In all these countries, however, wages were well below remuneration in the private sector and earnings from private enterprise. All these countries during the 1970s operated in a high inflation situation so that in no country could real earnings of management even be kept stable. In all these countries other segments of the bourgeoisie operating in the private sector were experiencing rising real earnings in many cases earned by marketing goods and services provided by public enterprise. Thus the rewards of efficient management in public enterprise were reaped by the bourgeoisie of the private sector.

There appears to be no escape from this dilemma in bureaucracy dominated administrations. Within the area of public service it appears impossible in all these countries to break out of the reward structure designed for the permanent civil service. In all countries the permanent civil service operating through the hierarchy of ministerial control have frustrated any attempt to pay a market wage to public sector personnel because this disturbs their notions of equivalence in public service. In Bangladesh the fight was to ensure a reward structure for top management which established equivalence with the bureaucracy, but even this has proved unsuccessful. As a result in terms of both remuneration, privileges and status in the hierarchy, corporation chairmen are less well off than a civil servant ten years their junior who may be secretary of a ministry. Whilst a general manager of a factory employing 3000 people would be less well off than a deputy secretary with ten years service.

The unresolved contradiction appears to lie in the determination to impose the yardsticks of performance demanded by a bourgeois system but to provide a reward structure which cannot and will not pay a market wage to its skilled personnel. The rhetoric of socialist systems with appeals to hard work and sacrifice is expected to sustain this class in an environment of rampant private accumulation and conspicuous consumption by the bourgeoisie.

/The

The crisis in the upper echelons of the labour market is compounded by the crisis with the labour force in public enterprise. To the extent that public enterprise is motivated by the objective of improving the conditions of the workers and giving them more say in the affairs of their enterprises the record of public enterprise in these five countries has not been conspicuously successful. In Bangladesh, Pakistan and Sri Lanka the regimes which promoted the growth of public enterprise all drew upon considerable working class support to bring them to power. In the case of Bangladesh much working class blood was also shed in the course of the liberation struggle.[103/] Even in India the labour movement has been an important plank in the support base of the ruling party who have had to tailor their rhetoric to accommodate the workers.

In Pakistan, Bangladesh and Sri Lanka the working class in public enterprises were both politicized and unionized so that they exercised considerable scope for extracting concessions from the management. In any industrial conflict the political leadership was far more inclined to support the unions than the management of public enterprise.

This initial strength of the working class was manifested in pressures to increase the levels of manning in most public enterprises. This seems to have been the case in selected enterprises in India, Pakistan and Bangladesh. However, there is no conspicuous evidence that in any aggregative sense public enterprise is carrying a disproportionately large labour force. A specific study of this phenomenon in Bangladesh for the industrial sector indicates no clear trend in this direction as may be seen.[104/] Indexes of declining output per worker merely reflect constraints affecting production rather than any element of overmanning. In some cases the practice of private enterprises to keep a large stable of casual labour led to pressures to provide secure employment for this component of the labour force, but this only applied to a few enterprises. Even in Pakistan overmanning as a result of nationalization was enterprise specific rather than a generalized phenomenon.

The real problem faced by PE management was less apparent in the compulsion to employ than in the difficulty of dismissal. This traditional sanction retained by the private sector to motivate an underpaid labour force in a labour surplus economy or to adjust to a change in the market for the product has been the traditional instrument of exploitation in the bourgeois system.

/Under

103/ Op. cit. Sobhan and Ahmed (5)
104/ Ibid.

Under public enterprise, particularly where organized labour has political muscle such sanctions are not available to managers. Thus factory discipline is weak and the only way in which workers can be motivated is through an efficient reward structure. This should be able to ensure subsistence wages, lead to rising real wages, reward efficient work and involve workers in the management process. These measures, however, are not within the dispensation of public enterprise managers. The earnings accruing to workers in public enterprise is more likely to be determined by the distributive regime emerging out of the allocative policies of the government than the entrepreneurial decisions of its managers. The performance and rewards of the workers under public enterprise thus become yet another variable which remains outside the control of PE managers. We thus find that in the labour market PEs in South Asia face constraints on hiring, firing and providing incentives to their labour force.

It would appear from our review of the constraints afflicting the performance of public enterprise in south Asia that their capacity for autonomous action to generate and distribute surpluses is decidedly limited.

This does not rule out the possibility that within the prevailing constraints individual chief executives can perform differently depending on their individual initiative, experience and superior skills of their labour force. Such factors as design faults, age of machinery, natural and global constraints on supply of inputs all remain relevant to performance as and when we enter into the specifics of why one enterprise performs better than another. In this paper, however, we are concerning ourselves with the environmental framework within which public enterprise has to operate. It is in this context that the south Asian experience brings out the ubiquitousness of the constraints on the autonomy of public enterprise. In all such cases the nature of the constraints appear to originate in the nature of the regime itself. Problems of procurement, marketing and rewarding employees are all constrained by the contradictions within the support base of the regime. All societies except Nepal are characterized by the ongoing dialectic between contending social groups within the regime. We will conclude our paper by discussing the focal point of these conflicts which relate to the distributive regime under public enterprise. This part of the discussion will provide a more focused understanding of the problems of using the public enterprise tool as an instrument of anti-poverty policy.

/XVIII.

XVIII. POLICIES RELATING TO THE DISTRIBUTION OF THE SURPLUS GENERATED BY PUBLIC ENTERPRISE

It must be kept in mind that within a system of private ownership and management the only distributive question relates to the task of maximizing the surplus accruing to the owners of the equity in the enterprise. Decisions on procurement, marketing and remuneration of employees are all subordinated to this objective. Government policies have to be taken as exogeneously imposed parameters. However, the owners of property as a class try to influence the course of the policies in a direction favourable to the objective of maximisation surplus on their equity. Individuals seek to bend, evade or cheat their way round these parameters. Their success in both tasks depends on their collective strength and individual influence respectively. This rather singleminded objective is without prejudice to ancillary objectives of consolidating power and control over their environment, since these are themselves really part of the attempt to influence the parameters within which the goal of surplus maximization can be pursued. One uses here the concept of surplus rather than profit in its strict accounting sense since this really represents the resources retained within the control of the entrepreneur.

In contrast to the relatively unambiguous objective of the private entrepreneur one faces the situation where public enterprise executives have limited control at all over the determination of the surplus and none over its distribution. Thus maximization of surplus in relation to equity may appear to be coincidental rather than by design. Public enterprise being a resource in the hands of the regime it can allocate income from public enterprise by virtue of its ownership, on the basis of social policy, rather than through the more limited goal of distributing surplus from the enterprise.

This point may be more easily understood if we note that the revenues from public enterprise may be distributed between a variety of social groups in society. These may be summarized in the form of a matrix which spells out the sources from which revenues from public enterprise are distributed between different social groups.

The above matrix of distribution from PEs is obviously simplified but serves to illustrate how its revenues can be exogenously distributed by policy and other influences.

We may try to explain the impact of these influences in terms of the respective social groups involved in the process drawing upon the

/Table 13.

Table 13. Matrix of distribution and beneficiaries of revenues from public enterprise

Recipients of revenue classified as social groups	Sources of revenue		
	(i) Material inputs	(ii) Employee compensation	(iii) Surplus
1. Foreign	*		
2. Agricultural sector			
i. Small farmers	*		) Subsidized consumption
ii. Big farmers	*		) of PE goods
3. Employees in PE			
i. Workers		Wages	i. Bonus
ii. Management		Salaries	ii. Profit share
			iii. Social amenities
			iv. Subsidized consumption of PE goods
4. Public Enterprise			i. Depreciation fund
			ii. Reserves
			iii. Post-tax profits
5. Government			i. Interest on loans from public sector financial institutions
			ii. Indirect taxes
			iii. Direct taxes
			iv. Post-tax dividend paid to exchequer
6. Middleman	Trading profit		i. Premium from procurement of PE goods at sub-market prices

/south

south Asian experience by way of illustration. Our use of south Asian data is limited by the absence of any quantitative research which seeks to define inter-class income flows. To the extent that our analytical framework is seen to be relevant to an understanding of distributive regimes the matrix may provide the basis for further research to enable these slots in the table to at least be filled in. For the purposes of our paper, however, we have only indicators of these flows for Bangladesh, India and Pakistan.[105/] A separate set of data for Bangladesh, which is more comprehensive in its coverage is only available for one year. This is presented as table 15. Data for India presented in table 14 and Pakistan (table 14) is available for three years. A more restricted estimate for Bangladesh (table 14) covers only the manufacturing sector for two years. The breakdown of distribution categories is very limited being restricted to payments for materials, employees compensation and surplus. Only in our single year data for Bangladesh can we breakdown the surplus between what is retained with the enterprise and what is surrendered to government.

XIX. THE EXTERNAL SECTOR

Public enterprises purchase a part of their material inputs from abroad in the way of raw materials, intermediate inputs and spare parts. Exogenously induced changes in world prices can of course influence the earnings of PEs with a high import component in their product value. In the short run PEs can do little about this. The data as available in tables 14 and 15 makes no distinction about payments for material inputs to the external sector. The rise in the relative share of payments to this sector for India as between 1970/71 and 1975/75 from 64 per cent to 72 per cent of output value reflects the rise in the cost of external inputs due to the upward shift in world prices.[106/] In the case of Bangladesh the high ratio of payments for raw materials which rose from 56 per cent in 1969/70 to 68 per cent in 1975/76 owes entirely to the rise

/Table 14.

105/ The concept of estimating the allocation of the surplus for the entire public enterprise on an aggregative basis inevitably blurs the distinction between government policy variables and the structural characteristics of the PE set in any country as the determinant of factor payments. Our estimates based on a high level of sectoral aggregation except for Bangladesh, thus have only illustrative value rather than serving to explain the flows in terms of policy variables.

106/ India's import bill during this period rose from $ 2.2 billion in 1972 to $ 5.1 billion in 1974 largely due to the rise in import costs.

Table 14. Distribution of product value of public enterprises

	Bangladesh[a/]		India[b/]			Pakistan		
	1969/70	1975/76	1970/71	1973/74	1975/76	1969/70	1972/73	1974/75
Percentage share of material inputs in production value	56.2	68.4	63.9	69.0	72.1	35	54	58
Percentage share of employee compensation in production value	10.5	10.9	11.7	11.1	10.1	31	20	21
Percentage share of surplus in production value	33.3	20.7	24.4	19.9	17.8	34	26	21
of which: taxes								
returned surplus								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100

Sources: Bangladesh: Computed from annex 1.7, 1.8, World Bank report on Bangladesh, vol. II, 1978.
India: Tables 28, 29, National Accounts Statistics 1970/71-1975/76, Jan. 1978.
Pakistan:

Notes: a/ The figures for Bangladesh are for manufacturing industry.
b/ The figures for India relate to non-departmental mix financial enterprises.

/Table 15.

Table 15. Bangladesh: share of various elements in production value at factor cost in various manufacturing sectors in 1973/74

	Employee compnesation	Interest	Depr.	Government	Surplus	Raw material	Others
Cotton tex.	16.56	1.15	2.2	5.6	16.2	52.79	5.5
Spl. tex.	12.34	7.3	5.8	16.3	20.9	32.96	4.4
Jute tex.	29.2	6.4	7.4	0.2	(-6.8)	49.9	13.7
Edible oil	4.0	1.8	0.8	5.7	24.5	58.6	4.6
Tobacco	9.2	5.9	1.9	34.5	(-7.8)	30.1	26.2
Fish and cold storage	6.4	1.9	1.5	1.6	6.8	52.8	29.0
Misc. food	6.0	0.4	0.3	6.1	16.2	58.4	12.6
Paper and board	22.2	9.5	12.0	18.5	(-14.9)	62.9	10.2
Steel (large)	10.3	12.8	12.5	6.1	11.3	28.8	18.2
(small)	6.6	2.7	2.3	2.3	12.5	48.3	25.3
Sugar	10.4	4.9	4.6	2.1	15.1	51.6	11.3
Petroleum	3.4	4.7	5.2	4.2	0.9	79.3	2.3
Cement	9.6	1.6	1.7	29.3	21.0	24.0	12.8
Shipyard	13.2	4.2	1.7	2.9	1.8	46.7	29.5
Other	13.8	8.5	3.8	9.0	2.0	55.4	6.9
Pharmaceuticals	15.5	4.2	1.4	7.1	2.3	46.8	21.7
Leather	16.0	5.5	0.2	0.1	(-14.4)	89.7	2.9
Fertilizer	10.3	9.0	16.3	20.7	2.3	15.3	26.1
Chemicals	6.5	1.9	1.6	27.5	7.2	45.4	7.9
Match	4.0	0.04	0.5	48.5	7.4	28.6	12.0
Rubber	12.6	2.9	1.0	24.5	7.0	37.9	14.1

Source: Enterprise Balance Sheets for 1973/74, Sobhan and Ahmed (5).

/in

in the cost of imports.[107] This change in the import cost structure led to big increases in production costs which were not always compensated by corresponding price increases in Bangladesh.[108] In these circumstances there was a net transfer of resources to foreign suppliers by the PEs or where the cost was passed on, then by consumers.

The government, however, retains considerable power to determine the cost of imports to PEs and its impact on the surplus. The most obvious weapon remains the external exchange rate. By devaluing the currency a government can effect a sizeable transfer of the surplus from PEs to the public exchequer through accretions in earnings from import based taxes. This may again either come out of the surplus of PEs through a rise in cost structure or of middleman's profits or both. By way of illustration in Bangladesh the combined influence of the devaluation of the Taka and price controls on yarn sharply reduced the profits of the nationalized textile industry after 1974/75 where imported raw cotton was an important part of its cost structure.[109]

Apart from its capacity to influence the external value of the currency the government can influence the import costs of a PE merely by its allocative decisions in external resource programming. Decisions to allocate cash foreign exchange or multilateral commodity credits, in contrast to bilateral tied aid or barter can substantially influence the relative costs as between different sectors and over time. Paradoxically in a number of these countries PEs are discriminated against by being obliged to use the harder sources of aid whilst leaving the free foreign exchange to the private sector.

Apart from the impact of government we should also take note of the influence of intermediaries for foreign suppliers. This group having a vested interest in higher import expenditures acts as a lobby for foreign suppliers in competition with domestic sources of supply. In Bangladesh the Bangladesh Engineering Corporation always faced severe difficulty in marketing such items as ships, irrigation equipment and electric cables

/because

107/ For Bangladesh the country study (5) shows the impact of import price rises in the manufacturing sector. The World Bank study (37) gives data showing the rise in the price of imports from an index of 100 in 1972/73 to 215 in 1974/75.

108/ Op. cit. Sobhan and Ahmed (5).

109/ Derived from data on profitability in World Bank report (37).

because potential public sector customers were under pressure from these intermediaries to programme aid for imports from their principals.[110/]

XX. THE AGRICULTURAL SECTOR

Here again government policy both towards the external value of the currency, domestic procurement prices and pricing policy towards the supply of inputs to the farm sector have a big influence on the surplus of PEs. A look at table 15 for Bangladesh shows that in such raw material intensive sectors as jute, fish products and tanneries both government policy and natural factors are important determinants of the terms of trade between the PE sector and the farm sector.

The Pakistan experience is quite instructive as to the implication of exchange rate policy. In the pre-liberation period the jute industry in East Pakistan, now Bangladesh, was dominated by the West Wing capitalists who were a part of the ruling elite. This class could ensure a policy which consistently overvalued the Rupee, whilst providing export subsidies to the jute industry. As a result the terms of trade as between the jute industry and jute grower moved substantively against the Bengali jute growers.[111/] Whilst the post-liberation period saw the elimination of the West Pakistan capitalist through nationalization a popular government with a big constituency of farmers could not discriminate against the jute growers by manipulating the terms of trade in favour of the nationalized industry. As a result the terms of trade moved in favour of the growers and the cost of jute rose from 42 per cent of production cost to 50 per cent as between 1969/70 and 1973/74 and even higher in subsequent periods whence raw jute prices rose from Tk 55 per maund in 1973/74 to Tk 159 in 1977/78 due to increases in the domestic market price of jute.[112/] As a result in 1977/78 where the volume of production is close to an all time record the jute industry is likely to make an all time record loss of Tk 605 million which is 17 per cent of its sales value.[113/] This operating loss in the jute industry has grown progressively since 1972/73 and has converted over-all profits for the nationalized sector into operating losses

/in

110/ Op. cit. Sobhan and Ahmed (5).

111/ The political economy of this phenomenon has been discussed by Nations (58).

112/ Estimate for cost structure in jute industry for 1969/70 derived from study by Q.K. Ahmed (59), figures for 1973/74 derived from Sobhan and Ahmed (5) and for latest trend in jute prices from World Bank report (37).

113/ Ibid. World Bank (37).

in all years except 1973/74.[114] Now whilst there remains considerable scope for improving profitability through a more efficient production performance an important part of the crisis is to be found in the implicit re-allocation of the revenues as between the jute industry and the jute growers. There is no available data to show how far the revenues to the jute grower are distributed as between the growers and the middlemen. Indeed even within the growers the smaller growers may have received a lower price than big farmers with better holding power.

The experience of the jute industry is, however, repeated in a variety of other industries in Bangladesh and in other South Asian countries. The basic conflict between growers and public enterprise in all these cases is not always dependent on the inter-play of market forces, including market imperfections which favour the more powerful groups. Government policy interventions influence procurement price for a variety of raw materials such as sugarcane, raw cotton, oil seeds, fish, hides and skins. Here the sectional power of the respective beneficiaries of these procurements have acted to influence public policy to move the terms of trade in their favour. The capacity to do so depends on their power and the sources of support for the regime. In a number of cases a regime which seeks to help growers against PEs on grounds of equity ends up by helping rich farmers or middlemen thus strengthening the domestic bourgeoisie at the expense of public enterprise. The experience of the nationalized sugar industry in Bangladesh is a good illustration of this tendency.[115]

The conflict between growers and farmers manifests itself over the question of pricing policy for the products of public enterprise. A review of the south Asian experience shows that public enterprise has on occasion been used as an instrument to subsidize the farm sector. In both Bangladesh and Pakistan prices paid to PEs are well below world prices.[116] The implicit subsidy to growers represents a transfer of the surplus from PEs in these countries to farmers. In the case of Bangladesh there is also a large budgetary subsidy involved over and above the underpricing of procurement by the state fertilizer distributing agency from the Chemical Corporation. Here again the assumption is that "farmers" are being helped by the PEs. But in practice studies in Bangladesh and Pakistan show that big farmers are the main consumers of fertilizer, whilst this class, along

/with

114/ Ibid.
115/ Op. cit. Sobhan and Ahmed (5).
116/ Op. cit. Jones (9 and 10).

with local intermediaries, blackmarket fertilizer procured at sub-market prices to poorer farmers and appropriate the scarcity premium. In both these countries there is thus some indication that PEs loss is the bourgeoisie's gain.117/

XXI. THE MIDDLEMAN

It is at this stage appropriate to take stock of the role of intermediaries in the distributive mechanism of public enterprise. In all these countries, the presence of a national bourgeoisie which retains its dominance in the domestic trading sector has important implications for the distributive regime of PEs. The data used by us in table 16 conceals the true production value from public enterprise. As in the case of a regime where the external value of the currency is overvalued the real value of production tends to be understated where price and distribution controls are an important element of state policy. The indexes of product value used in tables 14 and 15 and in the literature on public enterprise use the ex-factory price of enterprise products to value product. Studies in Bangladesh have shown mark-ups at the retail level ranging from 80-400 per cent over ex-factory prices. This may be seen from the following table:

Table 16. Scarcity premiums on selected commodities produced by public enterprises in Bangladesh

		Per cent
(i)	Hydrogenated vegetable oil	88
(ii)	Toilet soap	121
(iii)	Sugar	100-150
(iv)	Cement	300-400
(v)	Tyres and tubes	100
(vi)	Television sets	200-300
(vii)	Cotton yarn (40/1 count)	

Source: Sobhan and Ahmed, table 22.2.

If market values were used to value product of PEs in Bangladesh it would thus be appreciably higher than the actual estimates used in computing tables 14 and 15. The residual between the market value of the product and the realized value is thus the concealed surplus which was appropriated by intermediaries in Bangladesh.

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117/ Op. cit. Sobhan and Ahmed (5).

The notion of a concealed surplus in the product value of PE assumes that there is in fact a scarcity premium to be earned by marketing its product.[118/] A mark-up between retail price and ex-factory price may simply reflect the normal costs of distribution. The concept of surplus used here thus relates to the notion that the price realized by PEs is in fact less than might be obtained in the open market. This situation arises in a regime of price and distribution controls. Price controls set the ex-factory price below its scarcity price. This needs to be compounded by distribution controls which limit the number of distributors entitled to market public goods. Where these price controls operate at the ex-factory level the premium is legally realized by the wholesaler. Where price controls are fixed on the retail price than the premium may be pocketed by any or all of a class of wholesalers, retailers and privileged consumers, who blackmarket the product rather than sell it at its controlled price. Normally the blackmarket at the retail and consumer level operates when goods go direct to retail outlets. When this is reinforced by a system of sale by ration cards or permits where designated consumers are entitled to obtain goods at controlled prices, then individual card holders may sell their quota or entitlement for its scarcity value, whilst the deisgnated retailers may divert supplies to the blackmarket by the expedient of using phantom ration card holders. This phenomenon has been common to the experience of all five countries who have operated ration systems for selected wage goods for some if not all segments of the population. At the retail level, however, the surplus tends to be much more broadly distributed between the many retail outlets and much larger number of beneficiaries. In Bangladesh for instance in 1975 there were over 4.5 million ration card holders in six statutory rationing areas.[119/]

The substantial premiums, however, are to be earned at the wholesale level where a much smaller number of selected beneficiaries are given distributional franchises for a product in short supply relative to its controlled price. Here a policy of price controls represented a policy of transfering the surplus from PEs to private distributors.

In all five countries private distributors dominated the marketing of PE products at least in the manufacturing sector. Obviously such utilities as power, oil and gas, transport, banking and insurance were

/directly

118/ Ibid. for a full discussion of the concept of scarcity premium in the context of Bangladesh pricing policy for PEs.

119/ See World Bank study on food policy (60).

directly sold to the consumer. However, where demand exceeded supply at the market price a phenomenon which was common to the utilities and transport sector in all the countries it has become common practice to pay part of the scarcity premium to some elements in the decision making process. Payments for anything from scarce wagon space to a first class sleeping berth are made to station masters and booking clerks since public sector transport services have invariably been underpriced. Long waiting lists for telephone and electricity connections are again common to all these countries. It is again common to pay the premium as bribes to anyone from the Minister concerned down to the assistant engineer.

In the finance sector the standard practice of underpricing services is common to all countries with a large share of commercial banking under public ownership. Both access and bribery are not uncommon prerequisites to expedite processing of loans or raising of O/D limits.

In all these sectors the ubiquitous middleman traffics in access to the decision makers. For a small cut he can obtain a phone connection, a power line, a sizeable O/D or, if nothing else, then at least entree into the Minister or Secretary's office.

In the manufacturing sector, however, the intermediary comes into his own because here he can in principle lay claim to the entire scarcity premium in his role as the designated monopoly distributor. In all the countries under review such price and distributional controls are practised, though the extent of these controls and the premiums realized through such controls vary widely.

In India for example in the manufacturing sector PEs are concentrated in the area of capital and intermediate goods. As a result in 1974/75 65 per cent of PEs sales were made within the public sector either to another government agency or a public enterprise.[120/] In just three out of fifty nine enterprises does the PE produce a product marketed directly to a consumer. In the case of cement and pharmaceuticals it supplies less than 1/8 of the product and these are largely marketed to other government agencies leaving the private sector to supply the market. Even in the sectors where PEs market their output to the private sector the nature of the product is such that sales are largely on an inter-industry basis so that the scope for intermediaries extracting a premium from the sale are limited.

/Given

120/ Op. cit. India study (1).

Given the peculiar structure of public enterprise in the manufacturing sector in India there was pressure both from other sectors of the government as well as the powerful private sector to regulate prices of public goods. It was argued that tiven the monopoly or quasi-monopoly position enjoyed by PEs in many areas they would make monopoly profits. Whilst this may have been a legitimate problem for policy makers as to how the surplus was re-allocated within the state sector the governments concern to protect private industry from paying the scarcity price to PEs reflects the power and influence of the bourgeoisie within the polity which could bend PEs to their service.

This reluctance to let PEs change the market price in the 1950s led to the no-profit formulae where PEs were expected to merely cover their costs.[121/] The implied subsidy to private industry is manifest in this policy. Indeed it was not till the end of the period of price stability dating from the 1970s that the notion of letting PEs earn profits became formally enshrined in public policy. However, even at this stage the obsession with monopoly profits being earned by PEs committed the government of India on its search for an optimum pricing formula which provided a "fair" return but protected the "consumer". As may be expected this concern for the consumer did not extend to enforcing price controls and curbing blackmarkets in the private sector which procured PE products at controlled prices but sold their output at market prices.

Only in a very limited range of products where PEs were operating in a competitive market with PEs were PEs permitted to charge what the market would bear. For the great variety of products the Tariff Commission became the arbiter of prices. Alternatively PEs were made to conform to a self-executing pricing formula laid down for them. In both cases the principle of cost plus pricing was combined with the concept of a price formulae based on landed cost of competitive foreign products. Such exotic formulae as the policy of retention prices for steel emerged from the attempt to regulate PE prices. The conceptual as well as practical problems of deriving an optimum formula were manifest but they had the uniform result of keeping prices below their scarcity price, reducing the earnings potential of PEs and re-allocating the surplus from public enterprises to private consumers.

The best example of this was found in the case of steel pricing. As a result of price controls in a range of ten different varieties of

/steel

121/ See Jha for discussion of pricing policy towards PE in India and its results (33).

steel in 1973 the ex-workers price of steel in India was below the domestic price of steel in Japan and the United States and appreciably below the f.o.b. price of steel in Europe. This was not necessarily of benefit to consumers since a sizeable differential between the ex-works and market price within India emerged which encouraged blackmarketing and surrendered the premium to private consumers of steel products or middlemen or both.

A review of th pricing regime for fifteen PEs in India indicates that six of these had their prices fixed exogenously and another nine determined their own prices on the basis of a formula based on landed cost pricing. The review indicates that at current levels of pricing, which have been revised upwards in the 1970s, five enterprises were charging prices which could give them a 15 per cent rate of return if they operated below 70 per cent of capacity. This would appear to suggest some element of monopoly pricing. However, another nine appeared to be extracting less than the scarcity premium for the product. The tendency to continue using this self-denial system in pricing PE products means that the policy of using price regulation to transfer surplus from PEs to private consumers is alive and well though the extent of this transfer may have been reduced now that pricing formulae at least recognize the need for realizing a positive return on capital investment in public enterprise.

The corresponding literature on pricing policy is negligible for Pakistan, Sri Lanka and Nepal. In Pakistan again PE products are largely marketed within the public sector, or on an inter-industry basis.[122/] If we look at the manufacturing sector under PE in 1974-1975 only one-fifth of value added from the sector is contributed by consumer goods industries, 20 per cent is contributed by intermediate goods and 60 per cent by capital goods. These are products which tend to be marketed either to the government within industry or to more affluent private consumers as in the case of cars or tractors. The market regime of PEs is thus largely one of natural or contrived monopolies or represents some element of market domination by PEs. Only 9 per cent of value added is contributed by products which operate in a competitive market. The government's capacity to generate surpluses in the public enterprise sector is thus quite considerable. In practice, however, a regime of administered prices

/for

122/ For pricing policy and market regime in Pakistan see country study (2).

for most PE products and services prevails. This has left scope for re-allocating the surplus either within the government or to different categories of private consumers, including middlemen in such areas as cement. It would appear that a system of distributional controls operated through a system of permits has widened the compass of patronage but limited the scope for large scale surplus extraction.

In Sri Lanka[123/] again most PEs operate in monopolistic markets as a result of a regime of administered prices, involving the intervention of the Parent Ministry and Ministry of Planning.

Whilst to some extent administered prices have tended to concede a large part of the surplus to PEs there is still a wide range of products where pricing policy permits the surplus to be re-allocated to distributors and consumers. Here the use of co-operatives at least in the trading sector has limited the scope for large scale profiteering at the intermediate level. However at the consumer level scope for patronage to selected consumers and local blackmarketing exists.

In Nepal[124/] again pricing policy is determined by the Ministry and in some cases at Cabinet level. Here again a regime of administered prices tends to prevail. With considerable scope for profiteering by both middlemen and privileged consumers.

In Bangladesh again we have more comprehensive data on the pricing regime. Here we note that the market regime is much more diversified particularly in the case of the manufacturing sector. Given the wide coverage of public enterprise in manufacturing, PEs are distributed in the consumer, intermediate and capital goods sector, though in terms of value added it is the intermediate sector which is dominant. Whatever be the market regime for PEs virtually the entire PE sector operated in a scarcity market of varying degrees of intensity. This provided considerable scope for both surplus generation by PEs and pressures to re-appropriate this to contending social groups.

A study of the market regime of manufacturing PEs in 1973/74 shows that a system of administered prices related to products contributing 52 per cent of production value in the sector.[125/] If one excludes jute which operated on the export market then 75.5 per cent of production value of domestically marketed goods was contributed by 17 PE industrial

/products

123/ Op. cit. Sri Lanka study (3).
124/ Op. cit. Nepal study (4).
125/ Op. cit. Sobhan and Ahmed (5) for a review of the operation of price controls on PEs in Bangladesh.

products subject to some form of price control. From this list of 17 industrial products only two, trucks and buses and writing paper set prices at a level where there was little scope to realize a scarcity premium. For the rest we have given some indication of the dimensions of this premium in table 16. In the case of 11 of these products distribution was undertaken by private dealers who appropriated the scarcity premium derived from the difference between the controlled ex-factory price and the market price.

In the case of two products namely bicycles and motor cycles a system of permits either subsidized the consumer or permitted the permit holder to extract the scarcity premium through sale of the permit. Public distribution was attempted for fertilizer, part of cloth and yarn output and sugar.

In the case of fertilizer, distribution at the retail level was in private hands and gave considerable scope for the surplus to vest in the hands of dealers and big farmers as consumers who also ran their own blackmarket. Since the retail price was subsidized and the ex-factory price was itself less than half the world price the implicit re-allocation of the surplus was appreciable. In the case of sugar distribution and price were controlled with the benefit accruing to ration card holders in five urban centres and to sweet manufacturers. In the case of cement a large part of output was sold to government agencies but private sales were handled through dealers who made sizeable profits through apportioning the premium.

In the case of cotton yarn which accounted for about a quarter of the PE sales in the domestic market distribution was done by a public corporation and by weavers co-operatives. This system, however, not only led to distributional inefficiencies leading to large inventory build ups in the mills but considerable surplus appropriation was carried out by middlemen who infiltrated the co-operatives in order to obtain control of yarn supplies. The induction of private dealers into the yarn distribution mechanism slightly improved efficiency but did little to limit surplus extraction by this class now operating under legitimate cover.

The pricing and distribution policy relating to PEs in Bangladesh reflected the influence of the trading bourgeoisie within the system. They used their access to policy makers to impose a pricing policy which in effect transferred a sizeable part of the surplus generated by public

/enterprise

enterprise to the hands of selected members of the bourgeoisie. This transfer of the surplus from the control of public enterprise to the hands of surplus farmers and elements of the trading bourgeoisie not only reduced the earning capacity of public enterprise but also the revenues of the government. Revenue shortfalls compelled the government to resort to deficit financing and raised its dependency on external resource inflows. The deficit financing generated inflationary pressures which massively eroded the political standing of the regime between 1972-1975 whilst growing dependency made the regime vulnerable to pressure from aid donors. The sectional interests of some elements of the ruling elite thus served to undermine the political position of the regime as a whole. The incapacity to resolve this contradiction through an assault on the trading bourgeoisie and/or the recapturing of the surplus through appropriate pricing policy was paid for in the progressive weakening of the public enterprise sector. This trend in turn was used to criticize the nationalization policy itself and to undermine the idealogical premise of the policy. The incapacity to pass on the benefits of price controls to the poor by at least protecting them from inflationary pressures not only eroded the popular support base for the regime but alienated them from the nationalized sector whose retail price was paid for by the poor whilst the scarcity premium was appropriated by the middleman.126/

Whilst the Bangladesh case manifests in its extreme form the problem of the trading bourgeoisie using public enterprise for their sectional gain, the phenomenon is common to the experience of all the countries under study. The co-existence of low profit public enterprises with an affluent class of private intermediaries thriving on their surplus appears with varying degrees of intensity in all the other south Asian countries. In all these countries public enterprise is then attacked by the bourgeoisie for ineffeciency and this argument is used to demand more concessions to the private sector. The ubiquitousness of this tendency provides some commentary on the nature of these regimes and the continuing dominance of bourgeois influences in spite of the prevalence of populist rhetoric.

XXII. THE SHARE OF THE EMPLOYEES

The surrender of the surplus to material suppliers or middlemen is frequently paid for by the employees of public enterprise, both labour

/and

126/ Ibid. for a discussion of the political economy of pricing policy in Bangladesh.

and management. We do not have enough disaggregation of data to distinguish between these two categories. However, in table 17 we present data for the share of employees compensation in relation to both value added and production value. Again this data cannot take into account the concealed transfer of surplus to the middlemen. The figures, however, confirm the declining share of the employees in terms of product value at least in Bangladesh and Pakistan. After an initial upsurge in the post-nationalization phase the employees were hard put to protect themselves against the material suppliers. The failure to compensate for increases in material costs through higher prices meant that at the other end the middlemen extracted the premium at the expense of the employees. In India the share for employee compensation whilst remaining the lowest of the three countries at least remained stable.

If, however, we use value added then the position changes somewhat. Here Indian public enterprise retained a large part of value added for its employees and kept the share relatively stable between 78-80 per cent. The trend in Nepal was upwards at around 50 per cent of value added. This was also the case in Pakistan where the share of employee compensation rose from 40 per cent in 1960 to 51 per cent in 1974/75. In Bangladesh by contrast there is a departure between the 1960s and the 1970s. In the 1960s when a large part of what is public enterprise today was under private ownership the share of employee compensation was 24 per cent. In the post-nationalization phase this rose to 38 per cent in 1972/73 but since then has tended to decline to around 34 per cent.

It is incidentally significant that if one looks at Pakistan and limits the focus to those enterprises which were nationalized the share of employee compensation rose from 30 per cent in 1961 to 49 per cent in 1973. Indeed if we further concentrate on the manufacturing sector the share of employee compensation rose from 46 per cent in 1961 to 81 per cent in 1973.[127/]

This tendency reflects the relative strengths of the working class in the respective countries in at least retaining the visible part of the surplus. In this respect industrial workers in Pakistan, followed by workers in India and trailed by workers in Bangladesh have done the best. All have, however, proved powerless against the transfer of the surplus to material suppliers or to the middleman.

/Table 17.

127/ Op. cit. Pakistan study (2).

Table 17. Percentage share of wages and salaries to value added in public enterprises

Country	1959/60	1960/61	1964/65	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
Bangladesh[a/]				(10.5)						(10.9)
	37.6		24.3	24.0			37.8	32.5	34.1	34.5
India					(11.7)			(11.1)		(10.1)
		78.46	74.84	78.74	78.85	78.25	79.24			
Nepal				39	42.3	36.8	53.1	49.5		
Pakistan				(31)			(20)	(21)		
		40		47			43	51		

Sources: Bangladesh: Computed from Annex 1.7, 1.8 World Bank report, vol. II, December 5, 1978.
India: Table NGPW 1 appendix to chapter 5 and table of text.
Nepal: Appendix V3 Nepal study.
Pakistan: Tables 37, 47, 48, 49. Pakistan study, part II.

Notes: The figures in brackets are for the share of wages/employee compensation in production value.
a/ The figures for Bangladesh are for the manufacturing sector only.

/The

The capacity of employees to maintain their share of the surplus may be contrasted with their capacity to simply protect their living standards. In table 18 we present trends in real wages of workers in public enterprise. In India real wages tended to rise between 1965 and 1972. The downward trend manifest in 1972/73 cannot be established from the data. The fact that the cost of living in India continued to rise sharply after 1973 tends to indicate that real wages continued to decline.

In Pakistan the figures do not distinguish between wages and salaries of employees. The figures in table 18 show a decline in real wages. But in the manufacturing sector wages rose from an average of Rs 1,685 per year in 1969/70 to Rs 4,167 in 1972/73 following the nationalization of industries. There has been a gradual decline in real wages since then because of a rising inflationary trend but wages remain still well above the pre-nationalization level and reflect the capacity of the workers to extract concessions from a popularly elected government.

In contrast in Bangladesh real wages declined compared to the post-nationalization phase to 1969/70. For all their militancy and initial political strength the workers in public enterprise in Bangladesh failed to protect their living standards or to prevent an appropriation of the surplus for the trading bourgeoisie.

The experience of India and Pakistan at least indicated that the extension of public enterprise particularly as a result of nationalization can secure relative and absolute gains for the workers, though this can be rapidly eroded under pressure of inflation and reassertion in the claims of contending social groups. Even these transient gains tend to be highly sectional depending upon the strength of organized labour in particular enclaves of the public sector. The Pakistan experience showed that whilst workers in the manufacturing sector improved their position after nationalization in other parts of the public sector real wages declined. In Bangladesh the relative and absolute position of the working class in all areas of the public sector has been progressively eroded under pressure of inflation which has benefited the suppliers of material inputs and the middlemen. Organized labour either collectively or even in the industrial sector has not been strong enough to protect itself. The extension of public enterprise is thus not an inevitable panacea to the improvement of the conditions of the working class. All that one may conclude is

/Table 18.

Table 18. Trend in real wages in public enterprises

Country	1960/61-1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
Bangladesh[a/]							100	100.9	96
India[b/]	97.1	105.1	115	121	127.2	126.9	114.4		
Pakistan[c/]				100			107.4		89.9

Sources: Bangladesh: Bangladesh study, pp. 10-24.
India: Table NGPE 1 Appendix to chapter 5 India study.
Pakistan: Table 1 (page 221) Pakistan study, part II.

Notes: a/ Annual average real wage of 16 public enterprise industries.
b/ Average real earnings per worker in non-agricultural public enterprise.
c/ Real wage (wages + benefits) of a public enterprise employee.

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that under private ownership their circumstances may have been worse absolutely and in a relative sense always was worse as private owners ensured that they appropriated the lions share of the surplus.

It should be kept in mind that apart from actual changes in the rate of earnings another important policy variable which effects the share of employee compensation is the choice of techniques imposed on public enterprise. A look at table 19 shows that on aggregate PE investments have been concentrated in the capital and intermediate goods sector which tends to be more capital intensive. This may be expected since one of the rationales for public enterprise has been for the state to focus its investment activity on those areas requiring large inputs of capital and involving sophisticated technologies. In areas such as utilities and communication which have been state monopolies in all the countries the scope for factor substitution tend to be limited and available technology tends to involve highly capital intensive investments. Here the tendency of such projects, for all countries except India in more recent times, to be tied to aid financing has further limited the technological options of these countries to the technological package supplied by the donors. These have inevitably reflected the factor endowments of the developed economies.

Even in the area of manufacturing the pattern of investment preferred for PEs has been to direct them to large scale capital and intermediate goods projects. The share of investments in the consumer goods sector reflects at least in Pakistan and Bangladesh the impact of nationalization of private enterprise after 1975. The retention through these measures of such industries as edible oils, flour products, cigarettes, sugar have raised the share of consumer goods in the PE sector. Before 1971 in fact the bulk of PE investments were directed to capital and intermediate goods, with the private sector remaining dominant for consumer goods.

The constraints imposed by the investment priorities for public investment have not made PEs into major employers of labour. In table 20 we present the share of PE labour force in the total labour force and in the more limited non-agricultural sector. It is apparent that public enterprise as an instrument for alleviating poverty through direct employment creation is likely to have a marginal impact. However, as we have seen its investments can play a critical role in secondary generation of employment. However, here there is as yet no attempt in any of these

/Table 19.

Table 19. Structure of manufacturing under public enterprise (in percentage)

Country	Year	Consumer goods	Intermediate goods	Capital goods
Bangladesh[a/]	1975/76	26.2	60.5	12.1
India				
Nepal				
Pakistan	1974/75	19.7	20.2	60.1
Sri Lanka				

Sources: Bangladesh: table 1.4 World Bank Bank report, vol. 1, December 5, 1978.
India:
Nepal:
Pakistan: table 32 Pakistan study, part II.
Sri Lanka:

Note: a/ The figures for Bangladesh add up to 98.8 per cent. The remaining 12 per cent is attributed to "others".

/Table 20.

Table 20. Share of employment by the public enterprise sector

Country	Year	PE employment in thousands	PE share of employment (per cent)	PE share of non-agricultural employment a/ (per cent)
Bangladesh	1973/74	461	1.75	8.62 (8.52)
India	1973	5,542		29.45
Nepal	1975	20	0.42	7.43 (7.13)
Pakistan	1974/75	493	2.46	5.43 (5.38)
Sri Lanka	1973/74	258	5.68	9.46 (7.8)

Sources: Bangladesh: computed from tables 17.17, 17.18, Bangladesh study.
India: tables 9, 9.1, Overview of Public Enterprise Sector in India.
Nepal: pages 73, 74, table E 1, Nepal study.
Pakistan: tables 30, 31, Pakistan study, part II.
Sri Lanka: tables 7.1, 7.5, 7.6, Sri Lanka study.

Note: a/ The figures in brackets are the share of non-agricultural PE in non-agricultural employment.

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countries to purposefully use PE projects as catalysts for employment generation or to promote secondary activity. These are taken as incidental spin-offs from the original investment with the amplitude of the multiplier effect being left to the play of the market.

XXIII. THE SHARE OF THE GOVERNMENT

It has become apparent that the government as a whole remains an important claimant on the surplus of public enterprise. It claims its share through indirect taxes levied on the material inputs being consumed by public enterprise, through direct taxes on its post tax profits and through its claim on dividends against its equity holdings in public enterprise. Further claims on the revenues of public enterprise may be made through the pricing of intermediate inputs consumed by public enterprise. This includes capital supplied by publicly owned banks. Here monetary policy operating on the cost and supply of capital becomes an instrument to re-allocate the surplus between different components of the public enterprise system. The suggestion that contributions to the exchequer from public enterprise are inadequate on the basis of payments of direct taxes and dividends can thus be highly misleading since the government has a variety of intermediate pricing, fiscal and monetary policy options within its control to realize its share. These instruments may be used at the direct expense of the surplus generated by public enterprise. The Nepalese experience has shown that contributions to the exchequer from indirect taxes exceeded the value added by public enterprise. The government found it expedient to extract its share ab initio rather than in terms of direct taxes and dividends which would have increased had the indirect tax burden been reduced.

A further way in which the government appropriates the surplus is through procurement and pricing policy. The government both as a distributor and consumer may choose to underprice its procurements from public enterprise. This was the case in Bangladesh for offtake of fertilizer, sugar, edible oil, kerosene and cloth which were all marketed in all or part by state distribution agencies. Similarly the government of Bangladesh as consumer of capital and intermediate goods from public enterprises producing engineering goods, steel, cement and other such items used its monopsony power to obtain products at sub-market prices. This practice

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appears to have been common to all the other countries. To the extent that the government is a direct consumer the implicit transfer of the surplus from one agency to another may merely involve an allocative decision within the government. However, where the government as distributor passes on the surplus from public enterprise to private retailers or privileged consumers from the elite groups then the public distribution system ends up by penalizing itself.

We do not have much data on the distributive biases of the governments own allocative policies. The data for Bangladesh presented in table 15 brings out some of the distortions introduced by government fiscal policy. Thus for instance the government realizes 34.5 per cent of the production value from the tobacco industry through indirect taxes which then incurred a deficit of 6.8 per cent. Similarly in the case of the paper and board industry the government realized 18.5 per cent in taxes and 9.5 per cent in interest, whilst the sector went on to incur a deficit of 14.9 per cent. Of all the industries, the leather industry appears to be the only one with a net deficit. In all other industries the government either as banker or treasury appropriated its share of the surplus. It is, however, significant that whilst the government appears to have been fairly successful in extracting its share of surplus from public enterprise it has been relatively unsuccessful in recovering any part of the scarcity premium earned by traders benefiting from its pricing or procurement policy, through the tax mechanism.

In the case of India for which we have some comparable data, the government tripled its tax collections from public enterprise but took in a declining share of the surplus. In contrast in Pakistan again the use of indirect taxes ate into the surpluses of public enterprises but contributed substantially to government revenues. Sri Lanka and Nepal in particular established a similar pattern.

XXIV. THE SHARE RETAINED BY PUBLIC ENTERPRISE

It would appear from our framework of anlysis that what part of the surplus is actually left with public enterprise is very much a residual item. In no country does there appear to be any macro-economic perspective towards the share to be allocated to public enterprise. Foreign suppliers, farmers, government, bankers, middlemen, consumers and workers are all accommodated within the distributive mechanism, with the share of each depending on their position to influence the market or exercise power on

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the government. Public enterprise seems the one agency in the mechanism which has neither autonomy to decide on what its share should be or power to realize its interest.

In Bangladesh, table 15 shows that in only 8 out of 18 industries did the size of the surplus retained by public enterprise exceed 10 per cent of production value. In some of these industries such as paper and board, steel and fertilizer the enterprises retained surplus was largely made up from its depreciation fund. Even in jute which incurred a deficit of 6.8 per cent the depreciation fund compensated for this so that there was no direct constraint on the cash flow of the sector.

In the case of India the retained surplus on aggregate tended to decline between 1970/71 and 1975/76 largely it would appear from table due to the rising cost of material inputs. We lack comparable figures for other countries, though their data would appear to show that retained surpluses tended to be low.

XXV. THE NATURE OF THE DISTRIBUTIVE REGIMES

The allocative regime of public enterprises in south Asia appears to have in common the fact that there is no policy perspective within which to use public enterprise as an instrument of distribution. Public enterprise remains a resources within the control of the government but the social purpose for which this resource is used continues to be permeated with confusion and conflict within the ranks of the policy makers.

Confusion in particular appears to prevail over the actual mechanism of surplus distribution. Ideally a government would gain from maximizing the surplus contributed by public enterprise and collecting this at a single point as a profit or dividend. This could be realized through the elimination of indirect taxes and price controls on public enterprise. The consequential increment in public revenues could then be allocated by the government through the budget on the basis of the social priorities established by the regime. The opportunity cost of these allocative decisions as between consumption and investment, between subsidizing different consumers and taxing others and between competing sectors could also be determined within a common policy framework. Public enterprise would then belimited to concentrating on improving its productive efficiency and its performance would largely come to depend on its own managerial skills rather than on

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the shifting sands of public policy and private interest seeking to eat into its surpluses. In this situation all the conflicting interests within the administration would seek to assert their claims at a common point within the allocative system, namely the annual budget which would become the focal point for both power play and conflict resolution.

It would appear to be a common characteristic of all these regimes to accommodate contending claims on the surplus through a series of ad hoc decisions taken in the specific context of the claim. It is in this way easier to take a decision on subsidizing fertilizer consumers as opposed to raising the revenues of a public enterprise rather than to expose the relative interests of fertilizer consumers to comparison with claims on the budget for setting up rural health centres. The policy of robbing Peter to pay Paul is thus elevated to the level of a national policy without ever having to evaluate the relative merits of their respective claims.

In any given situation it would appear that the strong organized interest groups appear best positioned to stake their claim on the surplus as long as they do not have to expose their claim to any sort of collective scrutiny by society or its representatives. To the extent that these interest groups can be aggregated into collective social interests, the class of rich farmers, trading bourgeoisie or industrial bourgeoisie, appear as net gainers from the system. However, within these classes there are intra-class conflicts, which lead to shifting coalitions of interests emerging over any given question of distributive policy. Even within these sub-classes some individuals or factions by virtue of their access to the decision makers are likely to be more successful in asserting their respective claims over others less privileged. Power and influence, however, emerge as the common arbiters of the distributive regime under public enterprise in a bourgeois regime.

XXVI. CONCLUSIONS

Our review of the South Asian experience with public enterprise does not indicate that public enterprise has been conspicuously successful as an anti-poverty instrument. It has had some success in achieving an element of regional dispersal of public investment to backward areas. It has to a limited extent benefitted some elements of the working class. It has to some extent increased the earnings of the farm sector. It has contributed

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to the revenues of the government indirectly rather than by design of policy. Though such contributions have in many cases been made directly at the cost of the growth potential of public enterprise or the interests of its employees. These revenues have not always been used by the respective governments as measures to reduce poverty. The investment strategy of public enterprise has not made any significant contributions to employment or the meeting of basic needs of the poor. The particular choice of sectors to be included under public enterprise have tended to be both aid and capital intensive and have concentrated on the provision of capital and intermediate goods. These investments have, however, had an important secondary impact on both employment and the meeting of basic needs which has contributed both to growth and improvement in the conditions of life.

Public enterprise as an instrument designed to reduce the role of the private sector has again met with mixed results. In Pakistan and Bangladesh and to some extent in Sri Lanka the growth of public enterprise was directly realized at the expense of a particular segment of the bourgeoisie. However, this anti-bourgeois bias proved to be short lived and the current configuration of power in all three countries has brought them on par with India and Nepal where public enterprise, public policy and public resources have continued to be invested in building up the bourgeoisie rather than reducing their power.

The distributive regime of controls favoured for public enterprise has directly encouraged the growth of a trading bourgeoisie at the direct expense of public enterprise. This tendency has been used to discredit public enterprise and legitimize the growth aspirations of the bourgeoisie.

The south Asian experience thus appears to confirm the view that the nature of the state is a critical factor in determining the growth of public enterprise, the interests it will serve, its viability and its distributive regime. To the extent that policy makers seek to use public enterprise as a genuine weapon of class war in the service of the poor it would appear to depend on a transformation in the configuration of power within the states. Once such a configuration is realized public enterprise can be much more effectively deployed as an anti-poverty instrument.

Within the current constraints imposed by the nature of state power, policy makers may, however, usefully clarify their own intentions

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and identify certain broad areas of action which could contribute to the goals of reducing poverty and reducing concentrations of wealth. These would include the need to clearly define the role of private enterprise at the outset. It should be recognized that a large public sector even operating in reserved sectors of the economy has in no country prevented the emergence of large business conglomerates who have succeeded in achieving a highly concentrated pattern of ownership and control over the means of production. Indeed in some cases this tendency has thrived on a growing public sector. Thus the growth of public enterprise would appear to be a necessary but not sufficient condition for reducing concentrations of wealth. To realize this policy-makers must take conscious policy decisions to curb the growth of the bourgeoisie by not only restricting their areas of activity but by limiting the size to which such an enterprise or conglomerates can grow. In the south Asian countries the problem is not one of monopoly in the product market but monopoly of power and wealth. It is only when this is broken that the extension of public enterprise into areas hitherto under private ownership can serve the purpose of reducing concentrations. To the extent that policy makers have reservations about such a radical use of the public enterprise weapon they should not be surprised to see public enterprise feed the growth of private concentrations of wealth.

A policy directed to reduce concentrations must at the same time define the social parameters of such a policy by setting out in unambiguous terms the current and future role of both public and private enterprise. If the goal is to use public enterprise as an infrastructure service to build up the bourgeoisie or to support it this should be made clear rather than to let this emerge as an unintended by-product of state policy. If the object is to both limit the growth of the bourgeoisie and to progressively expand the role of public enterprise into all areas of bourgeois activity then the social assumptions and time frame underlying such a policy should be spelt out. Either way the prevailing tensions which have surrounded public enterprise in south Asia will be reduced. In this situation policy makers and those contending for power within the polity will be more willing to accept the parameters of public enterprise as settled rather than to seek to modify them by working to undermine its viability in order to promote the expansion of the private sector.

Once the social assumptions and boundaries of the public and private sector are established the contending social groups within the polity will

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at least have the shared objective to make public enterprise viable and productive. If public enterprise is to work in support of private enterprise better that it do so efficiently and that the instruments for support and transfer of surplus do not work at contradictory purposes. Alternatively if public enterprise is to clearly play a lead role in the economy with the pre-emption of the role of the private sector then it will have to become the main engine of accumulation and growth in the economy. An unproductive public sector will not only undermine its own visibility which is now taken as given but the viability of the whole system.

The unified commitment within the system to make its public enterprises productive must identify the main constraints on production performance. The south Asian experience has identified this in terms of constraints on enterprise autonomy in the capital, labour and commodity markets. Constraints on capital in the south Asian scene are likely to persist in situations of capital scarcity and the need to optimize its allocation but they will vary from country to country and over time. However, once the investment decision is taken autonomy to keep the plant productive must at least be provided for as must the freedom of decision over material procurement. In both cases it is far more important to establish a clear line of accountability along with a machinery of sanctions and rewards to establish the premium on honest and efficient decision making rather than to impose costly and eventually ineffective checks on decision making.

In the labour market again the principle of identifying responsibility either individually or collectively and rewarding the fulfilment of responsibility through an effective system of incentives may be necessary. Within this system the involvement of workers in the managerial process through a redefinition of the tranditional division of labour between white collar managers and those who work with their hands appears to be an important precondition for securing a shared commitment to make the enterprise productive. Public enterprise is supposed to subsume the traditional antagonism between labour and management but has invariably failed to do so in south Asian public enterprise and for that matter in most socialist countries.[128/] Whilst the retention of incentives will continue to promote inequalities the social dichotomy between workers and management can be much more effectively bridged by ensuring not just upward mobility for workers into management but for management to participate in work on the shop floor. In this way the tendency for the functional division of labour

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128/ See Bettelheim's works for a discussion of these contradictions within the socialist economies (13, 14, 15) and attempts to resolve them.

to be reinforced by the social division of labour can at least be gradually eroded without prejudice to the continuing need for specialization.

It must in this context be recognized that the reward structure in public enterprise must be devised within the framework of an incomes policy. If a bourgeois system with a thriving private sector is to persist then management and skilled labour in public enterprise must be paid their market wage and not equated with the unproductive bureaucracy. A wage scale and incentive structure related to performance needs to be devised along with complete freedom to recruit laterally from the market rather than the basis of established governmental procedures. Here again the result must be measured against performance rather than rules. If public enterprise is to carry a quota of patronage appointees then this must be identified as a social cost to be paid for within the allocative framework of the budget. Managers should be made to identify the costs of overmanning which may come out of the budget for job creation programmes set up by the government.

A whole new set for policy instruments in both area and project planning may also need to be devised to develop public enterprise into an instrument for employment generation. Within the PE sectors again there would appear to be no reason why a conscious attempt to use public control over the investment decision to emphasize the use of more labour intensive options should not be encouraged. In the private sector the choice of techniques can only be induced through instruments of exchange rate, tariff and fiscal policy. Even these may not always yield the desired results. The compulsion to use the more mechanized techniques may arise out of socio-political constraints, such as the preference for inanimate machines over a politically volatile labour force. In these areas where there is a genuine set of options PE investment decisions may favour labour-intensive technologies or leave by design areas of investment to small and cottage industry using more labour intensive techniques. For example in post-liberation Bangladesh there was a conscious decision to let the nationalized textile industry concentrate on spinning yarn and keeping out of investments in integrated facilities designed to spin yarn into cloth. Weaving was to be left to the hand loom sector.

Finally, if some rationality must be imposed on the distributive regimes of public enterprise as an anti-poverty device then policy should focus on maximizing the surplus it can make available to the exchequer.

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The principal of reducing poverty through allocative policy in the development budget is likely to be much more effective than to extract surpluses from the body of public enterprise as has been the policy in south Asia. Pricing and distribution controls should only be applied where the poor are the intended beneficiaries and the distribution machinery is adequate and efficient enough to directly deliver price controlled products to all in the target groups. The south Asian experience has shown that the capacity to sustain a comprehensive rationing system is at the moment limited and at this stage could only extend to a few commodities. In these circumstances for those commodities where an adequate public delivery system does not exist better to let the price mechanism retain the surplus to public enterprise and eventually the budget. This can then provide income transfers, projects or services in a more focused way to the poor. The south Asia system of using public enterprise to sustain a class of unproductive middlemen is neither productive or equitable, whatever be the social premise of the regime.

The above suggestions for making public enterprise more viable are far from original. They seek to stress the need for clarity of assumptions and purpose on the part of policy makers. Our study has all along sought to bring out the importance of social forces underlying the role and performance of public enterprise. To seek understanding if not remedies for the problems of public enterprise demands that we identify the relevant interests in contention within the system rather than assume that all problems will be solved by expensive management consultants or sound economic policies. In the final analysis public enterprise like any other area of public policy cannot transcend the influence of these social forces. Given the continuance of unresolved contradictions within the polities of south Asia we must also recognize that the very clarity we seek may be hard to find in the ongoing conflicts within the system. In which case the incapacity to resolve these contradictions may emerge as one of the important variables constraining the performance of public enterprise in south Asia.

/ANNEXURE

ANNEXURE TO TABLE 8

Methodology and data for estimating the share of surplus generated by public enterprise

The main point of departure from conventional estimates of the surplus relate to incorporation of figures for indirect taxes. All the country studies have computed figures for gross savings which coincides with post-tax profits plus depreciation. However, the Pakistan study did not have data for contribution of taxes. We therefore had to use a rather different methodology which sought to use value added as the basis of computation. The surplus was here derived as value added - employee compensation. This was taken to approximate to gross savings + taxes used in the other studies. In actual practice it is not at all certain that these two measures are identical. The most obvious lacunae relates to the role of indirect taxes. Whilst direct taxes are included in the estimate of value added, indirect taxes are distributed between taxes on intermediate inputs and the final product. Whilst indirect taxes on the final product in the way of sales and excise tax may be included in value added, taxes on intermediate inputs are really added on to the value of inputs used in estimates of value added. This means that value added would have been proportionately higher if in fact taxes such as customs duty and excise were lower on the inputs. A further complication arises in the way of inter-industry purchases of intermediate inputs, so that the value added component of one enterprise becomes the input cost of another PE.

These problems in aggregate could be resolved by separate estimates of direct and indirect taxes contributed by public enterprises. In the case of Pakistan this was only available for the industries under the Bureau of Industrial Management. These account for a major part of tax revenues from public enterprise but by no means cover all enterprises. Furthermore the figures do not distinguish between direct and indirect taxes. Our revised estimate of the surplus used in this table for Pakistan and later in table 14 which is:

Surplus = (Value added - Employee compensation) + Indirect taxes could not be directly estimated; so we took off 10 per cent of taxes paid by BIM as an arbitrary estimate of the share of direct taxes.

The further problem with the value added base for estimating the surplus relates to the possibility of double counting since part of the

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indirect taxes paid on the end product of PE is incorporated in the value added estimate. The methodology therefore tends to eliminate from the figure of indirect taxes that part which is paid directly by PEs on their finished product. The available data provides no such distinction so that the surplus is correspondingly inflated in each country depending on the precise mix between taxes on intermediate inputs and end products. This problem, however, does not apply to the more direct route to estimating the surplus via gross savings.

A final problem of some conceptual significance relates to the very idea of using indirect taxes as a factor in determining surplus. It has been argued that indirect taxes are in fact passed on to the customer in the cost of the product and hence do not come out of the surplus created by an enterprise. In actual practice, however, there is a very elaborate theoretical and empirical literature on the incidence of indirect taxation which shows how the prevailing market regime determines how the indirect tax burden is distributed between the enterprise and the consumer. To the extent that the entire burden of the tax is fully passed on to the consumer through the price mechanism, without prejudice to the sales of the product it would be inappropriate to classify this as surplus. This is likely to be the situation under conditions of profit maximization practised by private enterprise.

However, it is assumed in our presentation that in most cases PEs were not maximizing profits in the south Asian countries. In a regime of price and distributional controls prices tended to be fixed below the opportunity cost of the product. Even in intergovernmental transfers the system of cost plus pricing sought to pay the enterprise a fixed return on capital rather than to pay the scarcity price. This has been elaborated by Jha (33) for India and tends to apply in all other south Asian countries. In this situation PEs even where they operate in a monopolistic market are constrained from maximizing profits in this market. Where in fact there is a substantial differential between the market price and the controlled price there is direct evidence of the costs of underpricing the product. It therefore follows that where prices are in effect set below the market price indirect taxes are not passed on to the consumer as a cost but in fact represent a surrender of revenue to the government. Only in the special cases where PE products priced on a cost plus basis for compulsory purchase by another public enterprise is it invalid to classify the indirect tax as

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a surplus. This may apply to some transactions in the case of inter-enterprise sales of capital goods. However, we would need both to refine our analytical tools and improve our data collection before we can make these nuances in the role of indirect taxes in generating surpluses.

Methodology for computing the surplus for each country

Bangladesh:	savings + contribution to government in taxes i.e. (custom duties + excise + sales tax + company income tax)
India:	gross savings of departmental and non-departmental PEs + contribution to government revenue i.e. (direct + indirect taxes) by non-departmental PEs only
Nepal:	gross savings + contribution to government revenue by PEs
Pakistan:	surplus = value added (gross) - employee compensation + 90 per cent of taxes and duties paid by BIM industries (10 per cent is arbitrarily assumed to be the share of direct taxes)
Sri Lanka:	gross savings + contribution to government revenue i.e. (direct + indirect taxes + consolidated Fund Contribution + interest payments + lending by subscription to government issues) - non-departmental PEs.

Annexure to table 8. Surplus generation by public enterprises
(Rupees/Takas in million)

Country	1960/61	1966/67	1970/71	1971/72	1972/73	1973/74	1974/75
Bangladesh						2,920.6	
India	2,460	6,060	11,900	13,720	15,600		
Nepal			61.93	73.17	100.04	188.16	
Pakistan					2,252.72		4,822.83
Sri Lanka		146.4	455.41	558.53	941.1	1,112.75	1,566.04

Sources: Bangladesh: Computed from tables 17.10, 17.21 Bangladesh study.
India: Table SI.1 Appendix to chapter 4, table T1 appendix to chapter 6 India study.
Nepal: Tables V5-V7 and table C1 Nepal study.
Pakistan: Tables 23, 47, 48, 49 Pakistan study, part II.
Sri Lanka: Tables 5.5, 5.8A Sri Lanka study.

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